

## 5. INFORMATION ON THE HLRB GROUP

### 5.1 Incorporation and Principal Activities

HLRB was incorporated in Malaysia on 12 November 1994 under the Companies Act, 1965 as a private limited company under the name Huat Lai Agriculture Sdn Bhd. On 27 March 2001, the Company changed its name to Huat Lai Resources Sdn Bhd. On 28 April 2001, the Company was converted into a public company and assumed its present name. The Company is principally involved in poultry farming which include the production of commercial table eggs and breeding of layer chicks.

### 5.2 History of HLRB

HLRB was incorporated on 12 November 1994. The Company operated a layer farm on a 15-acre freehold land in Serkam, Melaka. In 1994, this farm reached its maximum capacity of 170,000 eggs per day with two normal farms called Farm A and B. In 1995, an expansion program saw the number of eggs increased from 170,000 units per day to 250,000 units a day with the setting up of two additional farms; Farm C being a layer farm while Chohong Farm is a grower farm.

In 1996 the Company acquired a 30-acre land and invested in three more farms, Farm D being two 'Hi-tech 6 tier 6 row' hen houses, Farm E and Farm Kesang. Total egg production jumped by 80%, reaching a maximum capacity of approximately 450,000 units per day. In January 1997, another unit of 'Hi-tech' layer cage was outfitted in Farm F in Serkam housing 135,000 layer chickens in a 6 row and 7-tiers structure. With this, the maximum capacity increased to 540,000 units per day. In the same year, the company embarked on its next expansion exercise by acquiring a 16½ acre freehold land in Serkam in the district of Jasin, Melaka to begin operating a breeder farm. Its original hatchery facility on a 3-acre freehold land had a maximum capacity of 65,000 day old chicks per month.

The facilities have since expanded to a maximum capacity of 455,000 saleable chicks per month. The breeder farm has an average current production of 200,000 'Lohmann' day old layer chicks per month, 50% of which are sold to local farmers and 50% for its own use. The breeder farm reached its peak production in early 2001, producing 370,000 layer chicks per month. The layer breed is imported from a top European breeder, Lohmann Tierzucht of Germany from whom HLRB holds the franchise to produce these layer chicks for other layer farm operators in the industry.

Due to the superb quality of this layer breed and to the effective farm and hatchery management, HLRB's layer chicks have become one of the most popular layer breed in the country. The Company is also accredited by the Primary Production Department of Singapore for the export of Lohmann layer day old chicks to Singapore. These factors and the greater demand for layer chicks brought about by the increase in the size of the industry have contributed to the expansion of its hatchery to the maximum capacity of 455,000 saleable chicks a month.

HLRB expanded in October 1997 into a fully integrated unit complete with in-house feed mill factory employing European technology costing approximately RM3 million. This capital outlay has subsequently led to substantial reduction in cost of purchasing feed.

HLRB has in its efforts continued at expanding production levels and it has built additional 13 units of modern multi-tier layer houses to date. These modern multi-tier layer houses are fully equipped with automated trolley feeders, nipple drinkers, egg collection and egg counting systems, feed weighing, water counting and manure belt system. Currently, 11 of these units are in operation. Upon full completion of all 20 modern multi-tier layer houses by 2003, the production capacity is expected to reach 1.4 million eggs per day.

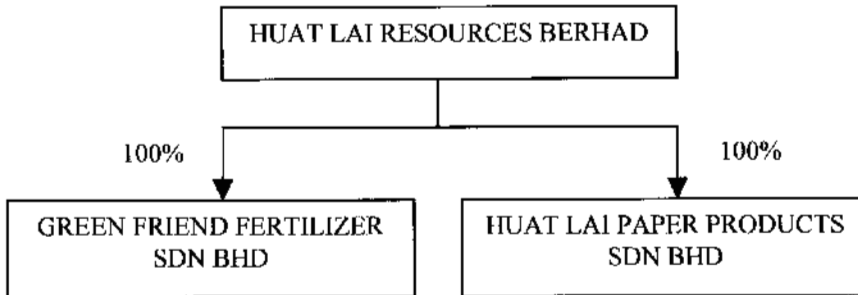
## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

The present size of the layer flock is approximately 1.2 million birds, producing approximately 950,000 eggs daily. Of this total output, an average of 50% is exported to Singapore and on occasion to Hong Kong and Indonesia. The remainder is sold to wholesalers in Peninsular Malaysia. Currently, HLRB is one of the largest exporting farms in Malaysia. In 2001, HLRB's exports represented approximately 21.07% of the total egg export market in Malaysia.

(Source: Independent Market Research Report prepared by Abner)

### 5.3 Business Overview

#### 5.3.1 Group Structure



#### 5.3.2 Principal Activities

HLRB is principally involved in poultry farming which includes the production of commercial table eggs and breeding of layer chicks. The principal activities of its subsidiary companies are as follows:

Subsidiary companies	Date/Place of Incorporation	Effective Interest %	Principal Activities
GFF	26.09.1996 Malaysia	100%	Manufacturing of fertilizers
HLPP	04.12.2000 Malaysia	100%	Production of paper egg trays

HLRB has no associated company.

#### 5.3.3 Principal Products

HLRB is principally involved in poultry farming which includes the production of commercial table eggs and breeding of layer chicks. The breakdown of HLRB Group's turnover, by type of product, for the financial year ended 31 December 2001 is as follows:

Type of product	Turnover contribution for the financial year ended 31 December 2001 RM'000	Proportion of total turnover %
Table eggs	50,129	80.78
Livestock	10,076	16.24
Fertilizer and chicken manure	1,781	2.87
Paper egg trays	70	0.11
<b>Total</b>	<b>62,056</b>	<b>100.00</b>

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Of the Group's total turnover for the financial year ended 31 December 2001, egg sales contributed 80.78% to total turnover whilst sales from day old pullets contributed 16.24%. 2.87% was attributed to sales of fertilizer and chicken manure and the balance of 0.11% comprised of paper egg trays.

Table eggs come in six grades, namely grade A to F. The table below illustrates the percentage contribution of each grade in the year 2000.

### *Percentage contribution to total turnover in year 2000 of eggs according to grade*

Grade	Weight (grammes)	Percentage contribution to total turnover
A	66 – 69	30%
B	61 – 65	30%
C	56 – 60	20%
D	51 – 55	10%
E	45 – 50	5%
F	40 – 44	5%

*(Source: Independent Market Research Report prepared by Abner)*

### 5.3.4 Technology

The Group's production operations are characterised by the use of superior technology, underlining its commitment towards quality and efficiency. Apart from embarking on a franchise agreement with the German based Lohmann Tierzucht Company in supplying it with the Lohmann Brown layer parent stock, the company has consistently improved and upgraded its use of machinery imported from EU countries.

The following table illustrates the type of technology utilized in its various production operations.

Type of installation/machinery	Type of technology
Hen house: Battery cage for layers with evaporative cooling system	Tecno Impianti aviocoli from Italy
Egg collection system	Tecno Impianti aviocoli from Italy
Hatchery	Petersime from Belgium
Egg grading machine	Staalkat and Moba from Holland
Egg packing machine	Staalkat and Moba from Holland; and Diamond from USA
Bulk feed storage and feeding system	Cumberland from USA
Feedmeal processing machinery	Ottevanger from Holland
Fermentation machine	Okada from Japan
Paper egg tray machine	Leotech from Holland

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### 5.3.5 Patents, Trademarks and Franchises

HLRB does not have any patents or trademarks. However, it has entered into a franchise agreement with German based, Lohmann Tierzucht GmbH ("Lohmann") on 27 July 1999 for the right to produce and sell Lohmann Brown layer chicks in Peninsular Malaysia. The agreement is valid for a period of three years beginning on 1 March 1999 and ending on 28 February 2002. The contract period extends automatically for a further three (3) years if it is not cancelled by either party twelve (12) months prior to termination. Lohmann is considered as one of the top European breeders of layer breeds. Due to the superb quality of this layer breed and HLRB's effective farm and hatchery management, HLRB's layer chicks have become one of the most popular layer breeds in the country.

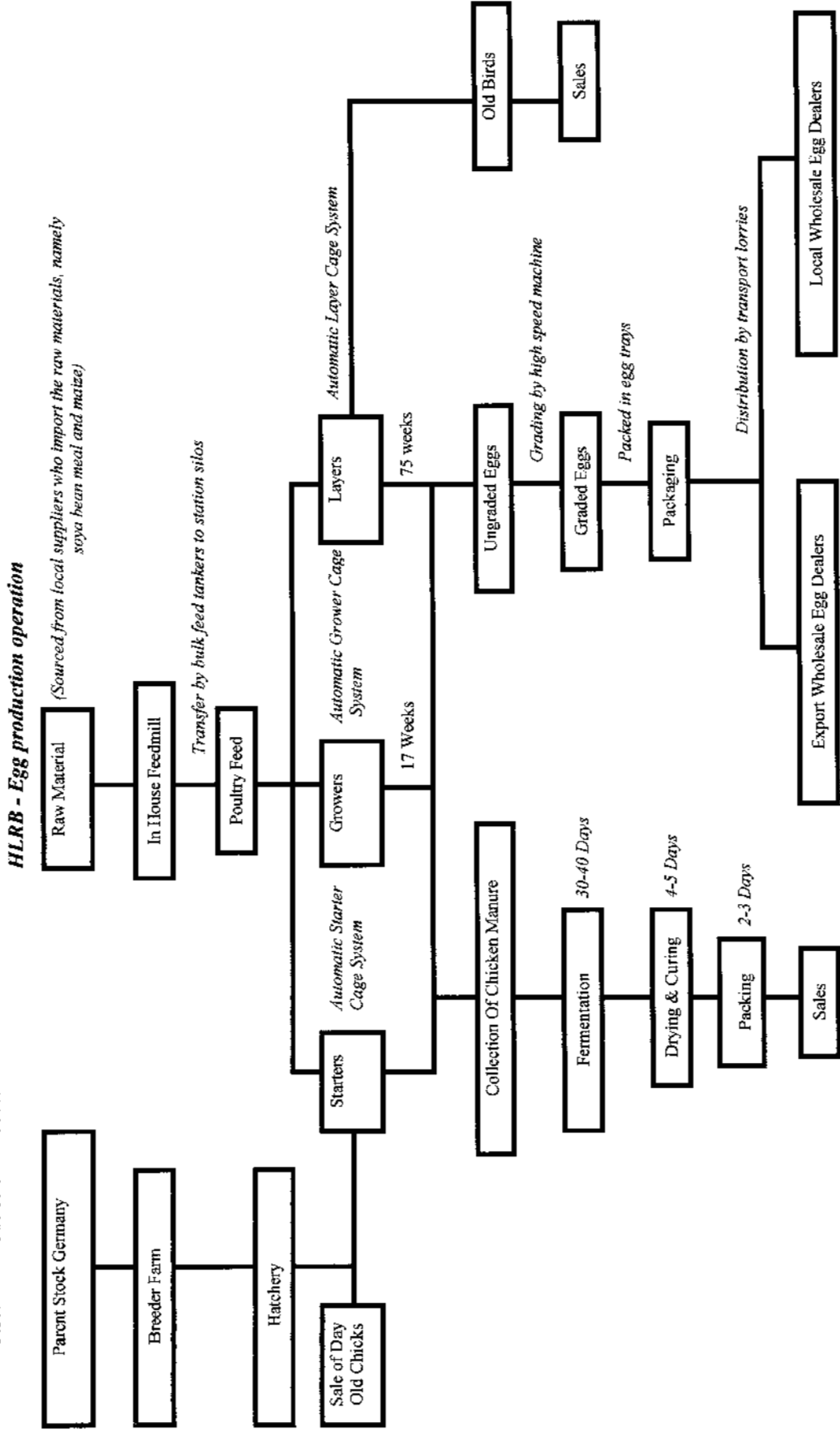
### 5.3.6 Approvals, Major Licences and Permits

The principal licences/permits/certificates obtained for the activities of the Group are as follows:

No	Type of Licences/Permits/Certificates
1)	<p>a) Licences issued by Majlis Daerah Jasin for the following:</p> <ul style="list-style-type: none"> <li>(i) Lot 60, 61 and 62, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(ii) Lot 16, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(iii) Lot 1813, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(iv) Lot 3169 and 3170, Mukim Kesang (Menternak Ayam/Itik)</li> <li>(v) Lot 427 and 428, Mukim Chohong (Menternak Ayam/Itik)</li> <li>(vi) Lot 450, Mukim Chohong (Menternak Ayam/Itik) (license is under the name of Lim Ycow Her)</li> <li>(vii) Lot 446, Mukim Chohong (Menternak Ayam/Itik)</li> <li>(viii) Lot 1879 and 1880, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(ix) PT 1678, Mukim Serkam (Stor Menyimpan Telur Ayam)</li> <li>(x) Lot 63, 64 &amp; 65, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(xi) Lot 751 to 754 &amp; 759 to 762, Mukim Selandar (Menternak Ayam/Itik)</li> <li>(xii) Lot 1811, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(xiii) Lot 1819, Mukim Serkam (Memproses Makanan Ayam)</li> <li>(xiv) Lot 2509 &amp; PT 1676, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(xv) Lot 80 and 81, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(xvi) Lot 93 and 94, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(xvii) Lot 99 and 100, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(xviii) Lot 28 and 29, Mukim Serkam (Menternak Ayam/Itik)</li> <li>(xiv) Lot 7 and 8, Kawasan Perindustrian Serkam (Kilang Memproses Tray Telor)</li> </ul> <p>b) Licences issued by Majlis Perbandaran Melaka Bandaraya Bersejarah:</p> <ul style="list-style-type: none"> <li>(i) Lot 2145, 2148 &amp; 2149, Mukim Bukit Lintang (Menternak Ayam)</li> <li>(ii) Lot 732, Mukim Ayer Molek (Menternak Ayam)</li> </ul>
2)	Advertising Licence issued for Lot 1819, Serkam Darat, Merlimau and Lot 1821, Mukim Serkam, Lot 751-754 and 759-762, Mukim Selandar (under the name of Lim Yeow Siong), Lot 7 and 8, Kawasan Perindustrian Serkam (under the name of Lim Yeow Siong); and
3)	Export Code CEM016 and CEM017 vide letter from Primary Production Department (PPD), Ministry of National Development Singapore dated 14 January 1997. Subsequently, approval was given by PPD for Export Code CEM018 where export capacity was increased and also Export Code DCM001 for export of Lohmann Brown Commercial Layer Day-old Chicks to Singapore via PPD letter dated 23 July 1999.

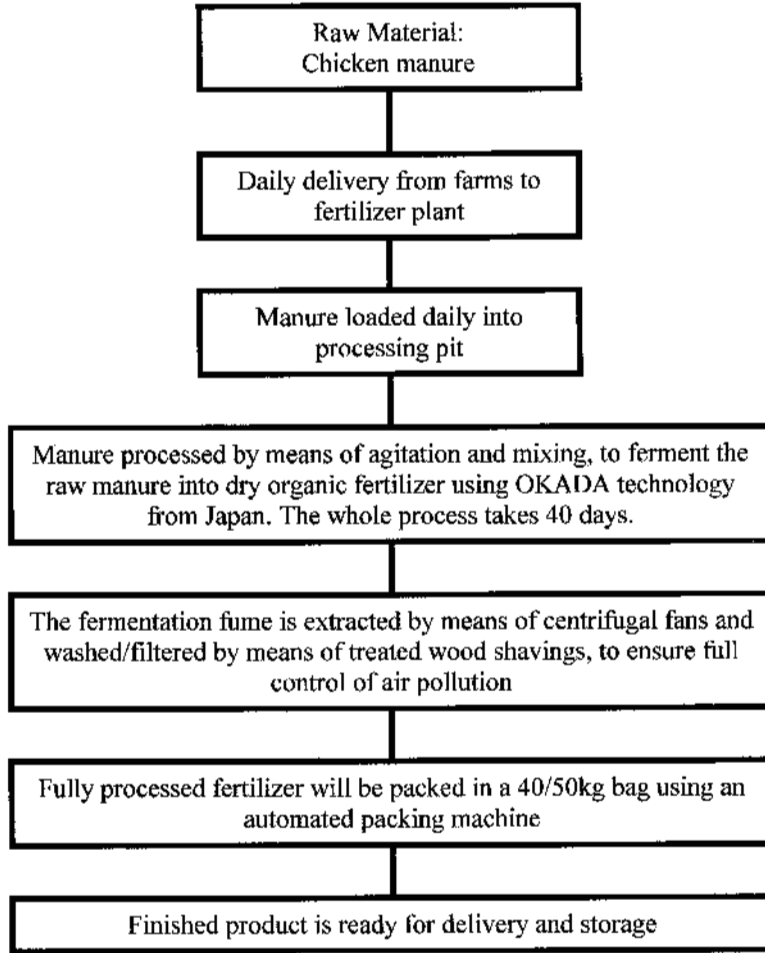
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5.3.7 Production Process



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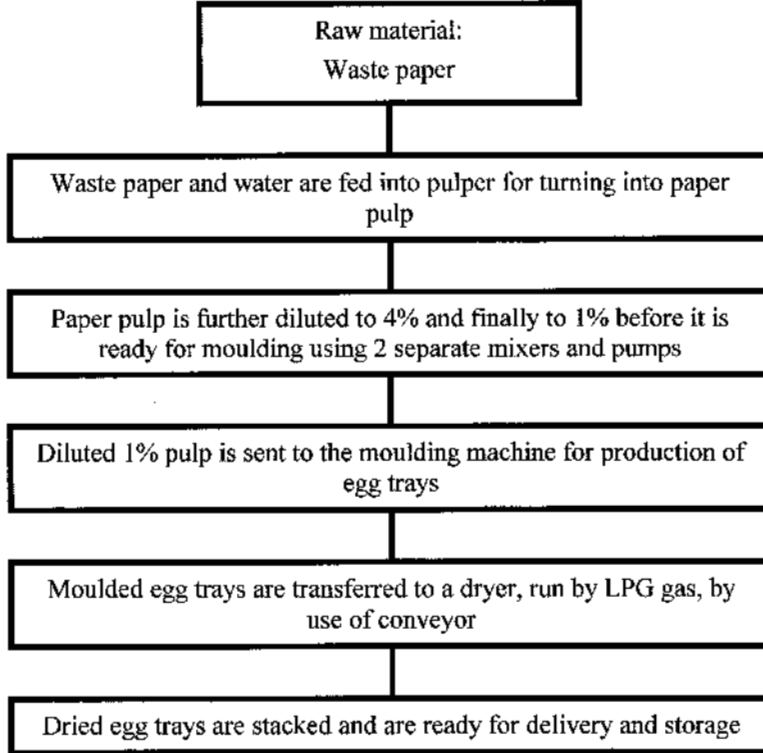
*GFF – Fertilizer production operation*



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*HLPP– Egg tray production operation*



**5.3.8 Market Share/Ranking**

HLRB's turnover is comparable to other key players in the egg industry, contributing about 317.0 million eggs to the total market in 2001, approximately 5.54% of the total industry annual output of 5.72 billion eggs. Despite only being in operation for the past 7 years, the company's promotional efforts in the export market have stood it in good stead as this represents the major contributor to its turnover.

Some of its main competitors are as follows:

*Listed:*

- Lay Hong Berhad
- LTKM Berhad
- Consolidated Farms Bhd

*Private:*

- Teck Ping Chan Sdn Bhd
- TTK & Sons Poultry Farm Sdn Bhd
- Linggi Agriculture Sdn Bhd
- Chuan Hong Poultry Farm Sdn Bhd
- Teo Seng Farming Sdn Bhd
- Seng Choon Farm Pte Ltd
- N & N Agriculture Pte Ltd

*(Source: Independent Market Research Report prepared by Abner)*

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### 5.3.9 New Venture

In line with the Group's expansion plan, RM6 million was invested in setting up an egg tray producing facility which commenced production in October 2001. The egg trays will be for in-house use and any excess will be sold to other egg producers in the market.

Not only has economies of scale justified the decision to embark on such a venture, the assurance of a steady supply of egg trays and a potential source of revenue are also important considerations on embarking on such an investment.

### 5.3.10 Principal Markets

In the area of producing day old pullets, HLRB supplies to other layer farms in Malaysia, among which include FFM Farms Sdn Bhd, Consolidated Farms Bhd and LTKM Bhd. The fertilizer products of GFF are supplied to local fruit plantations and vegetable farms.

After one year in egg production, the birds are classified as 'spent hens' and sold to food processing manufacturers. They usually end up as processed canned meat products. Sales from spent hens may represent a very minuscule proportion of total turnover but nevertheless illustrates the company's drive towards efficient use of resources and waste minimization.

The Company has successfully penetrated the overseas market through a distribution system of wholesalers and dealers by exporting an average of 50% of its annual output and 63% over the past five (5) years from 1997 to 2001 of total revenue of table eggs. This strategy is in line with one of the objectives of the livestock industry in general and the poultry industry in particular, namely to ensure the supply of poultry and eggs for the domestic market and to capitalize on the export markets.

Singapore has been its main export market and as the table below demonstrates, the export market will continue to remain a major contributor to the company's total sales in future years. In 2001, HLRB's export output for table eggs represents about 21.07% of the total export market of Peninsular Malaysia.

*HLRB's contribution to total export of table eggs in Peninsular Malaysia (million units)*

Year	Total quantity exported from Peninsular Malaysia (million units)	HLRB's export output (million units)	HLRB's export as % of total quantity exported from Peninsular Malaysia (million units)
1995	661.57	N/A	N/A
1996	556.73	N/A	N/A
1997	670.74	63.804	9.5
1998	454.29	67.059	14.8
1999	579.38	132.520	22.9
2000	485.45	167.024	34.4
2001	722.65	152.292	21.07



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Year	Domestic		Exports		Total	
	Value (RM'000)	%	Value (RM'000)	%	Value (RM'000)	%
1995	9.890	100	N/A	-	9.890	100
1996	16.486	100	N/A	-	16.486	100
1997	15.091	60	10.060	40	25.151	100
1998	11.267	40	16.736	60	28.003	100
1999	8.795	25	27.378	75	36.173	100
2000	7.871	19	33.993	81	41.864	100
2001	24.083	48.0	26.046	52.0	50.129	100
2002	29.358 <sub>p</sub>	44.2	37.084 <sub>p</sub>	55.8	66.442 <sub>p</sub>	100
2003	34.284 <sub>p</sub>	44.2	43.306 <sub>p</sub>	55.8	77.590 <sub>p</sub>	100

*p*: projected

(Source: Independent Market Research Report prepared by Abner)

**5.3.11 Types, Sources and Availability of Raw Materials**

HLRB is able to maintain its cost of production at a low level as a result of its excellent relationship with suppliers of its raw materials and parent stock. The Group is therefore ensured a reliable supply of quality inputs that translates into minimal disruption in its operations thus avoiding any losses that may arise from idle capacity. The Company also enjoys trade discounts from bulk purchases made possible by its large scale operations which contribute to lower production costs.

About 90% of feed resources utilized by the poultry industry are imported, the bulk being corn and soyabean meal. The industry also relies a good deal on imported feedstuff hence rendering them vulnerable to price fluctuations and instability in supply in international markets. It is to HLRB's credit that it has undertaken the strategy of producing its own feedmeal. The investment of approximately RM4.0 million on the computerized 'Ottevanger' feed mill machine has reduced the cost of feedstuff. The feedmill was upgraded in September 2001.

All of its raw materials are sourced locally with feedmeal ingredients constituting the bulk of the purchases. It is evident that the Group has established a loyal network of suppliers since it started its operation, which is a contributing factor to the consistency of its financial performance.

(Source: Independent Market Research Report prepared by Abner)

**5.3.12 Quality Control Procedure**

Although the Department of Veterinary Services (DVS) does not subject all poultry farms to inspection, compulsory inspection is required of farms applying for export status or are granted the status as in the case of HLRB. Day old chicks that arrive at the farm are quarantined for one month to ensure that they are free from salmonella, after which they are vaccinated to prevent diseases. Ante-mortem inspection of birds at rest in crates is carried out prior to entry into the farm. Although each individual bird is not examined at this time, an attempt is made to detect any dead, diseased, injured or unfit birds. Post mortem inspection is also carried out on carcasses on the processing line or chicks for evidence of avian diseases, improper bleeding and contamination of faeces or foreign material. The DVS will in addition, ensure that the plant premises, facilities and equipment as well as its operations and plant personnel meet established requirements for poultry health, nutrition and welfare.

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The Group's strong trend toward automation has also included installing automatic feeders in its operations. Automatic feeders activated by a time clock, move mash through troughs in the floor or past the cages and birds at floor level feed from troughs. Most poultry rations are of the all-mash type made up of soyabean meal, corn, sorghum grains or cottonseed meal. The feed is carefully balanced so that the hen gets just the right amount of protein, fat, carbohydrates, vitamins and minerals. Antioxidant or mould inhibitors are added to maintain the quality of the feed and the chickens occasionally require an antibiotic. These factors are crucial in determining egg quality and maximum egg size.

HLRB has also embraced genetics and hybrid breeding to breeding chickens. All of the layer hens are from the 'Lohmann' breed that are imported from Germany. Ten layer breeds are available in the Malaysian market of which 'Lohmann' represents one of the most popular breeds.

HLRB has the vision to position itself correctly within the industry and the society it serves by employing bio-security measures and world-class technology. It has embarked on structuring its farm operations to be in harmony with the environment with its obvious benefits of better performance and lower losses to infectious diseases particularly Salmonella infection. This approach is in line with the objectives of the Third National Agricultural Policy 1998-2010 ("NAP3") of increasing productivity and enhancing food security.

The realisation by the company of the need for buffer zones that it can control and manage effectively is a good case in point. This has resulted in HLRB acquiring bigger plots of land and setting up the farming infrastructure as close to the center of the land holding as possible. It was the foresight of the Group that overcame their reservations about the initial significant outlay incurred in adopting this approach. In fact, it is definitely in the interest of poultry farmers to undertake the restructuring process without being coerced by the authorities if they are to have a role and a place in the industry and society. In the face of increased globalization of the economy, only the most efficient and environmentally conscious firms will be ensured sustained growth in the long run.

The physical restructuring of farming systems to suit the environment, a factor that HLRB places great emphasis on, has also the obvious advantage of effective control of infectious disease. Clean and tidy farms in a well-buffered zone are less susceptible to pests and other carriers of disease. Hence the excessive use of antibiotics and other chemicals in preventing against disease outbreak will be minimized. In fact, adopting the current practice in Western countries of employing bio-security measures not only significantly reduces cost of production but also presents to consumers an industry that is keen to meet the stringent quality and safety requirements set by the health authorities. The Group is ever conscientious of the need of businesses to provide assurances to the customer that they will receive quality products as agreed and promised by the producer. To attest to its customer-oriented commitment, the Group had acquired the ISO 9001 certification from Lloyd's Register Quality Assurance for its modern multi-tier layer farms at Lot 751-754 and 759-762 Mukim Selandar, Melaka (LRQA, Kuala Lumpur) under the following Quality Management System Standards:

- ISO 9001 : 2000
- EN ISO 9001 : 2000
- BS EN ISO 9001 : 2000
- MS ISO 9001 : 2000

on 10 August 2001. The ISO 9000 series provides a descriptive framework within which the company is able to:

- achieve, maintain and seek to improve continually the quality of its products in relationship to the requirements for quality;
- improve the quality of its own operations, so as to meet continually all customers' and other stakeholders' stated and implied needs;

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- provide confidence to its internal management and other employees that the requirements for quality are being fulfilled and maintained, and that quality improvement is taking place;
- provide confidence to the customers and other stakeholders that the requirements for quality improvement are being or will be, achieved in the delivered product;
- provide confidence that quality system requirements are filled.

*(Source: ISO Standards Compendium ISO 9000 QUALITY MANAGEMENT Sixth Edition and Independent Market Research Report prepared by Abner)*

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### 5.3.13 Research and Development ("R&D")

Currently HLRB does not have a formally set-up R&D facility or personnel within its operation. However, improvement and development efforts are constantly undertaken in its layer rearing process and feedmeal processing by Mr. Lim Ycow Her, the Managing Director of HLRB who has more than 20 years of experience in the industry. The company has continuously kept abreast with rapid developments in the area of R&D undertaken within the industry and has been quick to adopt any improvements made in flock health and nutrition, genetic patterns of the breed of hen, processing efficiency, poultry inspection, egg products and nutritional content of eggs. The Company has out-sourced its quality control ("QC") activities to several independent laboratories. They are as follows:

1. Rhonc Poulenc Animal Nutrition (Asia Pacific) Pte Ltd in Singapore – feed ingredients/feed meal test
2. Jaya Laboratory in Petaling Jaya - feed ingredients/feed meal test
3. Applied Chemic Consultancy (M) Sdn. Bhd. in Melaka – feed ingredients/feed meal test
4. Malaysian Vaccines & Pharmaceuticals Diagnostic Services, UKM – day old chick test
5. Makmal Veterinar Kawasan Petaling Jaya – day old chick and egg test

The Company also holds the franchise agreement with Lohmann Tierzucht in Germany to produce day old layer chicks in Malaysia, from whom it also enjoys technical advice and know-how in poultry and egg production.

### 5.3.14 Interruptions in Business For the Past Twelve (12) Months

The Group has not experienced any interruptions in its business activities which have had any significant effect on its operations during the last twelve months.

### 5.3.15 Employees As At 9 May 2002

The HLRB Group currently has the following number of employees:

Category	Bumiputera	Chinese	Indian	Other Malaysian	Foreigner	Total
1. Management and Professional	2	11	-	-	-	13
2. Technical and Supervision	8	11	1	-	-	20
3. Clerical	4	3	4	-	-	11
4. General Workers	25	7	13	-	285	330
<b>TOTAL</b>	<b>39</b>	<b>32</b>	<b>18</b>	<b>-</b>	<b>285</b>	<b>374</b>

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HLRB continuously provides training and development for its management and technical employees through courses and seminars organised by both professional and governmental bodies. Courses and seminars attended thus far are as follows:

<b>Training/Seminar</b>	<b>Dates of Attendance</b>	<b>Organiser</b>
Exchange Rate Control Changes and its implications	October 1998	Bank of Commerce
Total Quality Solution	July 1999	Chemopharm Sdn Bhd
Hatchery Training in Germany	March 2000	Lohmann Tierzucht GMBH
Trade Finance Products & Services Seminar	June 2000	Bumiputra Commerce Bank
Poultry Mycoplasmosis	July 2000	Universiti Pertanian Malaysia (Fakulti Perubatan Veterinari)
Full Fat Soybean Meal Training Course in Thailand	July 2000	American Soybean Association
Poultry Refresher course	September 2000	Universiti Pertanian Malaysia (Fakulti Perubatan Veterinari)
IPO 2000 strategies for successful IPO	October 2000	Horwath Mok & Poon
Rodent Control Program	November 2000	Bayer (M) Sdn Bhd
PwC Tax Seminar	November 2000	PricewaterhouseCoopers
ISO 9001	December 2000	Novo Quality Services (M) Sdn Bhd
PwC Seminar on new MASB standards	January 2001	PricewaterhouseCoopers
Labour Law in Malaysia	February 2001	Travex Management Sdn Bhd
HSBC Trade Services	March 2001	HongKong Bank
ISO Internal Auditor Training	May 2001	Novo Quality Services (M) Sdn Bhd
Trade Finance Seminar	June 2001	OCBC Bank (M) Bhd
Tax Seminar – Self Regulation – MICCI and PwC	July 2001	PricewaterhouseCoopers
Seminar Peluang Perniagaan Skim Bantuan IKS – MIDA	July 2001	Malaysian Industrial Development Authority
Understanding Malaysian Securities Laws – Securities Commission	July 2001	SC Training and Education Department
Tax Seminar - PwC	October 2001	PricewaterhouseCoopers

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HLRB's employees are not members of any trade unions and to date, no industrial disputes have transpired in the Group's seven (7) years of operation. The average number of years of service of its key employees is about three (3) years.

**5.3.16 Key achievements/Milestones**

As a testament to the Group's strict adherence to an environment friendly policy, it was singled out as a role model in Berita Metro of 21 August 2000 for other layer farm operators to emulate.

HLRB was accredited by the Primary Production Department of Singapore for export of Lohmann layer day old chicks to Singapore on 23 September 1998. HLRB had also acquired the ISO 9001 certification on 10 August 2001, which is a segment of the ISO 9000 series for its modern multi-tier layer farms at Lot 751-754 and 759-762 Mukim Sclandar, Melaka.

**5.3.17 Distribution Network and Marketing Strategies**

Table eggs are sold directly and transported daily by lorry to wholesalers in both Malaysia and Singapore. HLRB maintains a stable and committed relationship with its major distributors, about 130 in total in both the local and export markets. They have been dealing with the Group since it started operating in 1994. Day old pullets are distributed directly to other farmers, who specialize in layer farming while fertilizers are sold to about 50 local fruit farms and vegetable plantations.

This distribution network of wholesalers is entirely responsible for the marketing, promotion and distribution of HLRB's products.

**5.3.18 Production/Operation Capacities and Output**

In its drive to full automation, HLRB has continued its program of expansion and development since it began its operations in 1994. Not only has the Group increased productivity through the upgrading of equipment and increased automation but also through the integration of its operations. To date, it has invested more than RM44.5 million in plant and machinery into its entire operation.

**HLRB Group's list of major investments in plant and machinery**

Particulars	Country of Origin	Maximum Capacity	Current Utilization
<b>1995</b>			
1 unit Moba 4000 Egg Grading Machine	Holland	Grades for 50,000 eggs per hour	8 hours per day
<b>1996</b>			
2 units Tecno Impianti Hen House	Italy	190,000 birds	24 hours, 365 days a year
1 unit Staalkat Farmpacker	Holland	Packs 36,000 eggs per hour	Twice a day (4 hours per collection)
1 unit Moba 4000 Egg Grader Machine	Holland	Grades for 50,000 eggs per hour	8 hours per day
<b>1997</b>			
1 unit Ottevanger Feedmill Plant	Holland	6,000 tonnes per month	4500 tonnes
1 unit Tecno Impianti Hen House	Italy	135,000 birds	24 hours, 365 days a year

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Particulars	Country of Origin	Maximum Capacity	Current Utilization
2 sets of Petersime Hatchery System	Belgium	130,000 saleable birds per month	24 hours, 365 days a year
1 unit Weighing machine (Feedmill factory)	Malaysia	Weigh a maximum of 60,000 kg	12 hours a day
Okada Fermentation Machine	Japan	1500 tonnes/month	400 tonnes
<b>1998</b>			
1 set of Petersime Hatchery System	Belgium	65,000 saleable birds per month	24 hours, 365 days a year
1 unit Moba automatic egg packing machine – Mopack 70	Holland	Packs 24,000 eggs per hour	Twice a day (4 hours per collection)
<b>1999</b>			
2 units Tecno Impianti Hen House	Italy	128,800 birds	24 hours, 365 days a year
1 set of Petersime Hatchery system	Belgium	65,000 saleable birds per month	24 hours, 365 days a year
1 unit Moba automatic egg packing machine – Mopack 70	Holland	Packs 24,000 eggs per hour	Twice a day (4 hours per collection)
<b>2000</b>			
5 units Tecno Impianti Hen house	Italy	322,000 birds	24 hours, 365 days a year
3 sets of Petersime Hatchery system	Belgium	195,000 saleable birds per month	24 hours, 365 days a year
1 unit Staalkat egg grader/packer/conveyor machine	Holland	Grades 59,400 egg per hour	8 hours a day
2 units Diamond Farmpacker	USA	Packs 72,000 eggs per hour	Twice a day (4 hours per collection)
1 unit Staalkat Farmpacker	Holland	Packs 36,000 eggs per hour	Twice a day (4 hours per collection)
<b>2001</b>			
6 units of Tecno Impianti Hen House	Italy	386,400 birds	24 hours, 365 days a year
3 units of Staalkat Farmpacker	Holland	Packs 108,000 eggs per hour	Twice a day (4 hours per collection)
1 set of Petersime hatchery system	Belgium	65,000 saleable birds per month	24 hours, 365 days a year
1 unit of Moba Omnia Automatic Egg Grading & Packing Machine	Holland	Grades 59,900 eggs per hour	8 hours per day

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Particulars	Country of Origin	Maximum Capacity	Current Utilization
<b>2001 (cont'd)</b>			
1 set of Breuil Chicks Counter	France	Counts 60,000 chicks per hour	Twice a week (8 hours per count)
1 house of breeder cages	China	20,000 birds	24 hours, 365 days a year
11 houses of grower cages	China	230,000 birds	24 hours, 365 days a year
Upgrade of Feedmill	Holland	Increased by additional 3,000 tonnes to 9,000 tonnes per month	4,500 tonnes
Leo 1500	Holland	3,600 pieces of paper egg trays per hour	20 hours per day
1 unit Stalkaat Egg Grading Machine	Holland	Grades 60,000 eggs per hour	8 hours per day
5 houses of brooding cage system	China	150,000 birds	24 hours, 365 days a year
<b>2002</b>			
2 units Tecno Impianti Hen House	Italy	128,800 birds	24 hours, 365 days a year
Leo 1500	Holland	3,600 pieces of paper egg trays per hour	20 hours per day

## 5.3.19 Principal Assets

The list of landed properties of the Company is set out in Section 9.

## 5.4 Changes in Share Capital

The authorised share capital of HLRB is RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each. The present issued and paid-up share capital is RM42,420,000 comprising 42,420,000 ordinary shares of RM1.00 each. Details of the changes in the issued and paid-up share capital of the Company since its incorporation are as follows:

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
12.11.1994	3	1.00	Cash	3
21.04.1995	150,000	1.00	Cash	150,003
21.07.1995	150,000	1.00	Cash	300,003
28.08.1995	150,000	1.00	Cash	450,003
26.04.1996	4,000,000	1.00	Cash	4,450,003
10.03.1997	354,000	1.00	Cash	4,804,003
18.06.1998	1,320,000	1.00	Capitalisation of amount owing to directors	6,124,003
02.08.2000	2,175,000	1.00	Shares issued as consideration for the acquisition of land	8,299,003



**5. INFORMATION ON THE HLRB GROUP (Cont'd)**

<b>Date of Allotment</b>	<b>No. of Ordinary Shares Allotted</b>	<b>Par Value RM</b>	<b>Consideration</b>	<b>Resultant Issued and Paid-Up Share Capital RM</b>
27.11.2001	30,080,995	1.00	Bonus issue of 30,080,995 new ordinary shares of RM1.00 each on the basis of approximately 3,625 new ordinary shares for every 1,000 ordinary shares held	38,379,998
28.12.2001	4,040,002	1.00	Rights issue of 4,040,002 new ordinary shares of RM1.00 each at par on the basis of approximately 105 new ordinary shares for every 1,000 ordinary shares held	42,420,000

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## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### 5.5 Restructuring and Listing Scheme

In conjunction with the listing of HLRB's shares on the Second Board of the KLSE, the Company undertook a restructuring exercise which was approved by the MITI, FIC and SC on 11 June 2001, 20 June 2001 and 30 August 2001 respectively. The details of the restructuring exercise are as follows:

#### 5.5.1 Acquisition of Shares by EUSB

EUSB entered into a Conditional Sale and Purchase Agreement on 30 April 2001 for the acquisition of 4,988,792 ordinary shares of RM1.00 each representing 60.11% of the then equity interest in HLRB from the Vendors for a total purchase consideration of RM4,988,792 to be satisfied by the issuance of 100,000 new ordinary shares of RM1.00 each in EUSB at approximately RM49.89 per share to the Vendors. Details of the Acquisition of Shares by EUSB are as follows:-

Vendors	No. Of HLRB Shares To Be Acquired By EUSB	Purchase Consideration RM	No. Of Shares In EUSB Issued At Approximately RM49.89 Per Share
Lim Yeow Her	2,494,696	2,494,696	50,000
Lim Yeow Kian	1,247,048	1,247,048	25,000
Lim Yeow Siong	1,247,048	1,247,048	25,000
	<b>4,988,792</b>	<b>4,988,792</b>	<b>100,000</b>

The Acquisition of Shares by EUSB was completed on 26 November 2001.

#### 5.5.2 Revaluations

##### Revaluation of Landed Properties of HLRB and GFF

A revaluation on the landed properties of HLRB was carried out by HLRB on 29 March 2001. The revaluation exercise has resulted in a revaluation surplus of RM15,879,582, which was approved by the SC vide its approval letter dated 30 August 2001, based on the net book value as at 31 December 2000 of RM21,125,418. Based on the valuation reports prepared by Messrs. Colliers, Jordan Lee & Jaafar (M'cca) Sdn Bhd, a firm of independent professional valuers, the open market value of HLRB's landed properties is RM37,155,000. Pursuant to the SC approval, the open market value is RM37,005,000.

The revaluation surplus of RM15,879,582 had been incorporated into the audited financial statements of HLRB for the financial year ended 31 December 2001.

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## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Location	Existing Use	Land Area And Tenure	(A) Net Book Value as at 31.12.2000 RM	(B) Open Market Value Approved By the SC RM	(B)-(A) Revaluation Surplus RM
Lot No. 16 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land and presently used as a layer poultry farm	10.5937 acres Freehold	1,151,891	1,595,000	443,109
Lot Nos. 28, 29, 99 & 100 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land and presently used as a breeder chicken farm	5.9230 acres Freehold	519,226	1,120,000	600,774
Lot Nos. 34, 35, 93 & 94 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land, Lot Nos. 93 & 94 are presently used as breeder chicken farm whilst Lot Nos. 34 & 35 are presently vacant	5.2316 acres Freehold	817,693	1,020,000	202,307
Lot Nos. 45, 46, 80 & 81 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land and presently used as a breeder chicken farm	3.7619 acres Freehold	399,902	560,000	160,098
Lot Nos. 60, 61 & 62 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land, being used as hatchery cum office building	1.006 acres Freehold	907,324	1,080,000	172,676
Lot Nos. 63, 64 & 65 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land presently used as a breeder chicken farm	3.3690 acres Freehold			
Lot No. 1811 (formerly PT 628) Mukim of Serkam District of Jasin State of Melaka	Poultry farm land, being used as a closed layer poultry farm (Hi-tech)	4.5961 acres 30 year leasehold interest expiring on 17.02.2021	665,211	1,500,000	834,789
Lot PT No. 764 (new lot no. 1813) Mukim of Serkam District of Jasin State of Melaka	Poultry farm land presently used as a closed layer poultry farm (Hi-tech)	5.600 acres 60 year leasehold interest expiring on 22.01.2055	832,040	1,890,000	1,057,960
Lot No. 1819 (formerly PT 629) Mukim of Serkam District of Jasin State of Melaka	Agriculture land presently used as a feedmill together with ancillary buildings*	4.70735 acres 30 year leasehold interest expiring on 18.02.2021	736,225	1,125,000	388,775
Lot Nos. 1879 & 1880 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land presently used as a layer poultry farm	14.8875 acres Freehold	1,923,915	2,565,000	641,085

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Location	Existing Use	Land Area And Tenure	(A) Net Book Value as at 31.12.2000 RM	(B) Open Market Value Approved By the SC RM	(B) - (A) Revaluation Surplus RM
Lot PT No. 1678 Mukim of Serkam District of Jasin State of Melaka	Commercial land presently used as office cum egg grading store	8,636 sq.m 60 year leasehold interest expiring on 22.01.2055	346,206	1,575,000	1,228,794
Lot PT No. 1679 Mukim of Serkam District of Jasin State of Melaka	Main road frontage agriculture land presently used as open field	2.1340 acres 60 year leasehold interest expiring on 22.01.2055			
Lot Nos. 751 to 754 & 759 to 762 Mukim of Selandar District of Jasin State of Melaka	Poultry farm land presently used as a closed layer poultry farm (Hi-tech)	40.1510 acres Freehold	7,068,639	13,950,000	6,881,361
Lot No. 2148 Mukim of Bukit Lintang District of Melaka Tengah State of Melaka	Main road frontage agriculture land planted with oil-palms of about 2 years old (land to be used solely for poultry farming purposes)	10.2250 acres Freehold	460,125	460,000	(125)
Lot Nos. 2145 & 2149 Mukim of Bukit Lintang District of Melaka Tengah State of Melaka	Agricultural land presently used as a layer poultry farm	15.6370 acres Freehold	1,689,778	1,995,000	305,222
Lot No. 732 Mukim of Ayer Molek District of Melaka Tengah State of Melaka	Agriculture land presently used as a pullet/grower poultry farm	11.2280 acres Freehold	1,371,365	2,530,000	1,158,635
Lot Nos. 427 & 428 Mukim of Chohong District of Jasin State of Melaka	Poultry farm land presently used as a grower poultry farm	Lot 427 6.756 acres 99 year leasehold interest expiring on 31.12.2037	734,412	1,175,000	440,588
		Lot 428 6.388 acres 71 year leasehold interest expiring on 31.12.2037			

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Location	Existing Use	Land Area And Tenure	(A) Net Book Value as at 31.12.2000 RM	(B) Open Market Value Approved By the SC RM	(B) - (A) Revaluation Surplus RM
Lot No. 446 Mukim of Chohong District of Jasin State of Melaka	Poultry farm land presently used as a layer chicken farm	15.0500 acres 71 year leasehold interest expiring on 31.12.2037	722,855	1,840,000	1,117,145
Lot Nos. 3169 & 3170 Mukim of Kesang District of Jasin State of Melaka	Poultry farm land presently used as a grower poultry farm	10.9888 acres 57 year leasehold interest expiring on 28.02.2023	778,611	1,025,000	246,389
<b>TOTAL</b>			<b>21,125,418</b>	<b>37,005,000</b>	<b>15,879,582</b>

**Note:**

\* The Land Office has approved the conversion to industrial use and the premium has been paid.

On 29 March 2001, Messrs. Colliers, Jordan Lee & Jaafar (M'cca) Sdn Bhd also valued the landed property belonging to the subsidiary of HLRB, namely GFF. The revaluation gave rise to a total revaluation surplus of RM1,870,396 based on the net book value of the landed property of RM1,429,604 as at 31 December 2000. The revaluation surplus was approved by the SC vide its letter dated 30 August 2001.

The revaluation surplus of RM1,870,396 had been incorporated into the audited financial statements of GFF for the financial year ended 31 December 2001.

Location	Existing Use	Land Area And Tenure	(A) Net Book Value as at 31.12.2000 RM	(B) Open Market Value RM	(B) - (A) Revaluation Surplus RM
Lot No. 2509 & PT No. 1676 Mukim of Serkam District of Jasin State of Melaka	Poultry farm land presently used as a fertilizer plant	7.8246 acres Freehold	1,429,604	3,300,000	1,870,396
			1,429,604	3,300,000	1,870,396

## 5.5.3 Revaluation of Investment in GFF

HLRB also carried out revaluation of the investment in its subsidiary company, namely GFF. The valuation gives rise to a total revaluation surplus of RM1,925,832 based on the cost of investment of RM700,002 as at 31 December 2000. The revaluation surplus of RM1,925,832 had been incorporated into the audited financial statements of HLRB for the financial year ended 31 December 2001. The revaluation surplus was approved by the SC vide its letter dated 30 August 2001.

Details of the computation of the revaluation surplus arising from the revaluation of investment in subsidiary company, GFF is as follows:-

	GFF RM
Adjusted NTA as at 31 December 2000*	2,625,834
Less : Cost of investment as at 31 December 2000	700,002
Revaluation surplus of investment in GFF	1,925,832

**5. INFORMATION ON THE HLRB GROUP (Cont'd)***Note:-*

\*

	<b>GFF RM</b>
Market value of landed properties of GFF	3,300,000
Less : Net book value as at 31 December 2000	1,429,604
Revaluation surplus of landed properties GFF	1,870,396
NTA as at 31 December 2000	755,438
Adjusted NTA	<u>2,625,834</u>

**5.5.4 Bonus Issue**

A bonus issue of 30,080,995 new ordinary shares of RM1.00 each on the basis of approximately 3,625 new ordinary shares for every 1,000 ordinary shares held in HLRB was carried out after the Revaluations. The bonus issue was effected by capitalising RM20,201,748 from the Retained Profits account of HLRB and RM9,879,247 from the Revaluation Surplus account of HLRB arising from the Revaluations. The Bonus Issue was completed on 27 November 2001.

The new ordinary shares issued pursuant to the Bonus Issue ranked pari-passu in all respects with the then issued and paid-up share capital of HLRB. On completion of the Bonus Issue, the issued and paid-up share capital of HLRB was increased from RM8,299,003 to RM38,379,998 comprising 38,379,998 ordinary shares of RM1.00 each.

**5.5.5 Rights Issue**

Upon completion of the Bonus Issue, HLRB undertook a Rights Issue of 4,040,002 new ordinary shares of RM1.00 each at par per rights share to all the existing shareholders of HLRB on the basis of approximately 105 new ordinary shares for every 1,000 ordinary shares in HLRB. The Rights Issue was completed on 28 December 2001.

The new ordinary shares issued pursuant to the Rights Issue ranked pari-passu in all respects with the then issued and paid-up share capital of HLRB. On completion of the Rights Issue, the issued and paid-up share capital of HLRB was increased from RM38,379,998 to RM42,420,000 comprising 42,420,000 ordinary shares of RM1.00 each.

**5.5.6 Public Issue and Offer for Sale**

In conjunction with the listing of HLRB, the Company will undertake the Public Issue of 7,580,000 new ordinary shares of RM1.00 each and Offer for Sale of 15,000,000 ordinary shares of RM1.00 each at an Issue/Offer Price of RM1.40 per ordinary share, which will be allocated in the following manner:-

**(i) Bumiputera Investors Approved by MITI**

15,000,000 Offer Shares will be offered to Bumiputera investors approved by MITI;

**(ii) Eligible Employees, Customers, Suppliers and Directors**

2,500,000 Issue Shares will be reserved for eligible employees, customer, suppliers and directors of HLRB Group excluding the promoters i.e. Lim Yeow Her, Lim Yeow Kian and Lim Yeow Siong and members of their family as defined under Section 122A of the Companies Act, 1965.

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

As approved by HLRB's Board of Directors, the criteria of allocation to eligible HLRB Group's employees and directors is based on the job grade and years of service whilst for customers and suppliers of the Company, the criteria is based on annual sales and annual purchases respectively. The total number of employees, customers, suppliers and directors eligible for the allocation are 75, 94, 62 and 2 respectively.

### (iii) Malaysian Public

5,080,000 Issue 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.

The Issue and Offer for Sale Shares represent 45.16% of the entire enlarged issued and paid-up share capital of HLRB comprising 50,000,000 ordinary shares of RM1.00 each.

Details on the particulars of the Public Issue and Offer for Sale are stated in Section 3 of this Prospectus.

## 5.6 Subsidiary and Associated Companies

The subsidiary companies of HLRB, all of which are incorporated in Malaysia are as follows:-

Name	Date And Place of Incorporation	Authorised Capital RM	Issued & Paid-Up Share Capital RM	Effective Equity Interest %	Principal Activities
GFF	26.09.1996 Malaysia	1,000,000	700,002	100	Manufacturing of fertilizers
HLPP	04.12.2000 Malaysia	1,000,000	1,000,000	100	Production of egg trays

HLRB does not have any associated company.

### 5.6.1 GFF

#### (i) History and Business

GFF (403638-11) was incorporated in Malaysia on 26 September 1996 under the Companies Act, 1965 as a private limited company. GFF is a wholly-owned subsidiary company of HLRB. The principal activity of GFF is manufacturing of fertilizers.

#### (ii) Share Capital

	No. of Ordinary Shares	Par Value RM	Amount RM
Authorised	1,000,000	1.00	1,000,000
Issued and Paid-up	700,002	1.00	700,002

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

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

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
26.09.1996	2	1.00	Cash	2
13.01.1997	200,000	1.00	Cash	200,002
18.04.2000	500,000	1.00	Capitalisation of amount due to HLRB	700,002

### (iii) Subsidiary and Associated Companies

As at the date of this Prospectus, GFF does not have any subsidiary or associated companies.

### (iv) Directors and Substantial Shareholders

The Directors of GFF and their respective shareholdings are set out below :-

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
Lim Yeow Her	-	-	700,002 <sup>(1)</sup>	100.0
Lim Yeow Kian	-	-	700,002 <sup>(1)</sup>	100.0
Lim Yeow Siong	-	-	700,002 <sup>(1)</sup>	100.0

Note:

(1) Deemed interested by virtue of his substantial shareholding in HLRB.

The substantial shareholders of GFF and its shareholdings are set out below :-

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
HLRB	700,002	100.0	-	-
Lim Yeow Her	-	-	700,002 <sup>(1)</sup>	100.0
Lim Yeow Kian	-	-	700,002 <sup>(1)</sup>	100.0
Lim Yeow Siong	-	-	700,002 <sup>(1)</sup>	100.0

Note:

(1) Deemed interested by virtue of his substantial shareholding in HLRB.

### (v) Employees

As at 9 May 2002, GFF has a total of 3 employees.



## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

## 5.6.2 HLPP

## (i) History and Business

HLPP (533685-V) was incorporated in Malaysia on 4 December 2000 as a private limited company under the Companies Act, 1965. HLPP is a wholly-owned subsidiary company of HLRB. HLPP is principally involved in the production of paper egg trays.

## (ii) Share Capital

	No. of Ordinary Shares	Par Value RM	Amount RM
Authorised	1,000,000	1.00	1,000,000
Issued and Paid-up	1,000,000	1.00	1,000,000

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

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
04.12.2000	2	1.00	Cash	2
07.06.2001	999,998	1.00	Cash	1,000,000

## (iii) Subsidiary and Associated Companies

As at the date of this Prospectus, HLPP does not have any subsidiary or associated companies.

## (iv) Directors and Substantial Shareholders

The Directors of HLPP and their respective shareholdings are set out below :-

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
Lim Ycow Her	-	-	1,000,000 <sup>(1)</sup>	100.0
Lim Ycow Kian	-	-	1,000,000 <sup>(1)</sup>	100.0
Lim Yeow Siong	-	-	1,000,000 <sup>(1)</sup>	100.0

Note:

(1) Deemed interested by virtue of his substantial shareholding in HLRB.

**5. INFORMATION ON THE HLRB GROUP (Cont'd)**

The substantial shareholders of HLPP and its shareholdings are set out below :-

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
HLRB	1,000,000	100.0	-	-
Lin Yeow Her	-	-	1,000,000 <sup>(1)</sup>	100
Lim Yeow Kian	-	-	1,000,000 <sup>(1)</sup>	100
Lim Yeow Siong	-	-	1,000,000 <sup>(1)</sup>	100

Note:

(1) Deemed interested by virtue of his substantial shareholding in HLRB.

**(v) Employees**

As at 9 May 2002, HLPP has a total of 14 employees.

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## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### 5.7 Industry Overview

#### 5.7.1 Overview Of The Malaysian Economy

The growth forecast of the Malaysian economy, which was revised downwards to 5-6% for 2001 in March from the Budget 2001 estimate of 7.5%, is being further adjusted to 1-2%, following primarily the recent developments in the US. Notwithstanding this, the strong fundamentals of the Malaysian economy continue to provide sufficient policy flexibility to implement growth-supporting measures to stimulate domestic economic activities without jeopardising the sustainability of the nation's potential growth prospects in the medium- and long-term.

The nation's current account in the balance of payments continues to register strong surpluses since 1998. On the medium-term impact, the prospects remain uncertain as events continue to unfold. For Malaysia, the difficulties in the external environment have emerged at the time when the nation is just at its first year of the Third Outline Perspective Plan (OPP3), 2001-2010 and the Eighth Malaysia Plan, 2001-2005.

All major sectors are expected to be adversely affected by the slower growth in the economy, particularly manufacturing which is estimated to record a sharp deterioration in output growth.

The steep decline in value added of the manufacturing sector has, however, to some extent been offset by the better performance from the agriculture, construction and services sectors.

The agriculture, livestock, forestry and fishing sector is envisaged to expand at a higher rate of 1.2% (2000: 0.6%).

#### Key economic Indicators, 1995 – 2001

Years	1995	1996	1997	1998	1999	2000	2001 <sup>e</sup>
GDP at market prices (in 1987 constant prices, RM million)	120,309	130,628	140,684	182,331	192,794	209,365	213,585
Consumer Price Index (1994 = 100)	103.4	107.0	109.9	115.7	118.9	120.7	122.3
Livestock production ('000 tonnes)	833.8	924.1	894.6	829.4	908.3	977.8	1,056.4
<b>Annual percentage changes (%)</b>							
GDP at market prices (in 1987 constant prices)	9.5	8.6	7.7	-7.5	5.8	8.3	2
Consumer Price Index (1994 = 100)	3.4	3.5	2.7	5.3	2.8	1.6	1.3
Livestock production ('000 tonnes)	4.0	3.5	3.5	-7.3	-2.6	12.7	8.0

*e=estimate*

(Source: Ministry of Finance, Economic Report, various years; Department of Statistics)

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### 5.7.2 Overview Of The Livestock Industry In Malaysia

#### Livestock Industry

The livestock and livestock products industry was the fastest growing in the agriculture sector during the Sixth Malaysia Plan period (1991-1995), achieving an average annual growth rate of 5.4%, exceeding the targeted rate of 5.2%. It achieved a modest rate of 3.1% per annum during the Seventh Malaysia Plan (1995-2000). The increase came mainly from an 8.8% increase per annum in output of poultry meat and 5.7% growth per annum from egg production.

#### Production of Livestock In Malaysia, 1990 – 2000 ('000 tonnes)

	1990	1995	2000	Average Annual Growth Rate		
				6 MP		7 MP
				Target	Achieved	Target
Beef	12.8	15.6	18.7	1.3	4.1	3.6
Mutton	0.8	1.1	1.3	6.8	6.5	4.2
Poultry	385.9	649.0	840.0	24.1	10.9	5.4
Pork	227.9	305.0	320.0	4.5	6.0	1.0
Eggs <sup>1</sup>	5,505.0	7,750.0	9,150.0	5.9	7.1	3.4
Milk <sup>2</sup>	28.9	33.8	37.5	3.2	3.2	2.1

#### Notes:

1. Measured in million units.
2. Measured in million litres.
3. MP : Malaysian Plan

(Source: Seventh Malaysia Plan (1996 - 2000) and Eighth Malaysia Plan (2001 - 2005))

The production of livestock products such as beef, mutton, poultry, pork, eggs and milk registered growth rates from 3.2% to 10.9% per annum. Beef, pork and eggs grew at rates higher than that targeted under the Sixth Malaysia Plan. The increase in beef and mutton was attributed to increased participation by land development agencies in cattle and sheep rearing as well as effective veterinary services. The gradual abolishment of import duty on animal feeds since 1991 also helped boost production of livestock products.

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## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Consumption for livestock products also increased in the last decade due to the improvement in income levels, increase in the population and government protection of the local livestock industry. Promotional activities undertaken by the respective trade bodies also created a positive impact on the demand of such products.

### *Peninsular Malaysia: Consumption of Livestock Products, 1989 – 2001 (million tonnes)*

Year	Beef	Mutton	Pork	Poultry meat	Poultry Eggs <sup>1</sup>	Milk <sup>2</sup>
1989	48,594	6,548	131,359	316.39	3,519	581.72
1990	50,874	7,283	150,093	296.24	4,532	561.18
1991	56,942	7,437	151,299	327.00	4,434	829.23
1992	58,619	9,035	162,282	431.60	5,165	792.35
1993	62,006	8,836	164,853	486.88	5,070	729.88
1994	69,317	9,509	178,872	518.45	5,237	535.65
1995	78,019	10,950	173,965	552.29	5,481	863.62
1996	84,335	14,306	174,405	468.59	5,521	638.32
1997	91,933	12,995	182,628	549.63	5,866	678.54
1998	81,517	12,298	170,671	516.61	5,494	611.31
1999	82,973	13,148	122,719	522.50	5,199	722.37
2000	99,611	13,501	138,908	531.61	4,895	1,025.73
2001	101,603	14,184	157,288	534.39	5,216	1,075.99

*Notes:*

1. Measured in million units.
2. Measured in million litres.

*(Source: Department of Veterinary Services)*

Malaysia has maintained self-sufficiency since 1989 in poultry, pork and eggs due to the enterprise of private firms who were quick to adapt to new technologies and management approach.

### *Peninsular Malaysia: Self Sufficiency In Livestock Products, 1989 – 2001 (%)*

Year	Beef	Mutton	Pork	Poultry Meat	Poultry Eggs	Milk
1989	24.33	9.01	126.45	114.10	110.83	4.30
1990	24.07	9.03	131.45	117.64	111.00	4.66
1991	22.31	9.04	135.38	119.57	113.44	3.23
1992	22.75	7.28	137.03	115.22	111.91	3.49
1993	22.04	6.87	140.21	115.17	112.17	4.01
1994	19.52	6.48	139.36	114.65	113.05	5.77
1995	19.73	4.84	141.77	111.44	112.37	3.69
1996	17.69	3.70	139.20	116.93	104.23	5.04
1997	16.54	3.92	135.02	116.93	104.13	4.34
1998	19.43	5.58	137.16	117.69	108.76	4.46
1999	20.96	6.21	109.33	120.21	109.40	3.31
2000	16.69	6.07	99.16	110.45	118.70	2.38
2001	23.65	7.02	130.53	125.64	111.50	3.49

*Source: Department of Veterinary Services*

### **Chicken Farming Industry**

With a growing number of consumers switching from red meat to poultry, the poultry industry is booming. The rise in income levels in Malaysia and the neighboring Association of South East Asian Nations (“ASEAN”) region have also contributed significantly to the increase in per capita consumption of poultry meat and poultry products.

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**5. INFORMATION ON THE HLRB GROUP (Cont'd)**


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***Current Status of Chicken Farming Industry In 2001***

<b>Output</b>	
Broiler chicken	382.56 million hens
Eggs	5.718 billion
<b>Export</b>	
Broiler chicken	43.98 million hens
Eggs	723 million

*Source: Department of Veterinary Services*

In addition to selling a growing quantity of poultry meat to consumers in Malaysia and the ASEAN countries, poultry farmers are also benefiting from the expanding Hong Kong and other East Asian markets. Improved technology and the development of sophisticated mechanical equipment were also responsible for a shift from small farm flocks to larger commercial operations. In major chicken producing states, flocks of 100,000 are not uncommon and some flocks number more than a million.

The development and growth of the commercial poultry industry can be traced to the importation of improved genetic resources from the western countries. Foresight on the part of both the government and the entrepreneurs saw the move away from small-scale production to the adoption of genetic and technical resources to further develop the industry. While it was the government who initiated this move, it was the farmers who took it forward to the vibrant and efficient industry it is today.

Layer farming has seen tremendous growth for the past decade compared to the 1980's. Not only did the operators of poultry farming benefited from an environment free from excessive regulations, these farmers also saw opportunities to make profit from an activity that relates to meeting the protein food supply of the consumers.

If during the 1980's, 20,000 broiler or layer flocks were considered as big farms, 50,000 hens in a single rearing site is now common place while the number of tunnel-ventilated multi-tiered layer houses with automated feeding, egg collection and waste management system is on the rise. Such changes in farming technique are driven by rising labor and material costs and the obvious rewards of economies of scale. Farm size has continuously increased accompanied by a regular decrease in farm numbers and owners. There is however very little data to illustrate such changes as there is no nation wide registration of farms by government authorities.

Some of the technology that have been adopted are:

- Automated feeding and drinking systems
- Automated egg collection and grading systems
- Mass vaccination system
- Insulated roof and wall poultry housing incorporating tunnel ventilation systems
- Automated multi-tiered layer production system
- Fully automated incubators and hatcheries

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Despite importing the main ingredients, local production contributed significantly to foreign exchange savings through the local added components of the finished product when compared directly to its imported equivalent. The local products that are available in the fresh form are additional bonuses. What the industry has to contend with is the competitiveness in international markets for value added and further processed products for both chicken meat and eggs.

The weakness inherent in the poultry industry is its inability to adapt more quickly to changing needs and expectations of its clients. This is especially true in the case of product quality as well as farming practices in the context of the environment.

Broiler chicken meat is the cheapest readily available source of livestock-based food. Broiler chicken farming contributes about 70% of the total meat required by the country. The farming is providing fast return to producers.

Producers, in deciding their production capacity for the coming year, use factors such as ex-farm prices and demand-supply of the preceding year as indicators because price is sensitive to the supply-demand balance.

### Chicken Layer Industry

The domestic market represents the main market for the chicken layer industry, made up of breeding farms and hatcheries. The export market constitutes around 10%.

There were twelve layer breeding companies in Peninsular Malaysia in 2001 breeding about 386,432 layer parent stocks, representing a 0.59% increase from the 2000 figure (Table below). Sources of supply of layer parent stocks of day old pullets are predominantly from European Union countries and the rest from Canada, Indonesia and the USA. The layer parent stocks consisted of eleven breeds in the market. The principal breeds are the Lohmann, ISA Brown, Golden Comet and Hisex making up approximately 72.71% of the total population of layer parent stocks. Stocks imported from the European Union countries are Babcock, Golden Comet, Lohmann, Hisex, Goldline, Tetra and H&N Brown Nick. The Golden Comet and Hyline layer breeds are from United States, Shaver from Canada while Isa Brown is from Indonesia.

### Standing Layer Parent Stock Population In Peninsular Malaysia, 1995 - 2001

Year	1995	1996	1997	1998	1999	2000	2001
Layer parent stock population	271,965	315,726	285,511	285,821	324,288	384,170	386,432
<b>Annual Percentage Changes %</b>							
	-3.01	16.1	-9.57	0.10	13.45	18.47	0.59

Source: Department of Veterinary Services

### Breeds of layer parent stocks and percentage of market share, 1995-2001

Breed	1995	1996	1997	1998	1999	2000	2001
Hisex	12.22%	34.85%	21.93%	20.77%	16.41%	14.06%	19.00%
Golden Comet	36.59%	24.04%	25.75%	20.93%	17.28%	13.51%	12.00%
Lohmann	3%	10.76%	9.36%	19.75%	21.70%	23.14%	24.57%
ISA Brown	16.51%	10.41%	-	9.69%	21.18%	18.40%	17.14%
Babcock	12.53%	7.23%	3.64%	3.35%	1.24%	5.24%	9.23%
Shaver	10.39%	6.08%	24.91%	11.57%	3.54%	-	-
Tetra	7.15%	3.63%	-	2.13%	1.67%	-	-
Goldline	1.61%	2.92%	10.82%	-	3.77%	-	-
Dekalb	-	-	2.23%	-	-	-	-
Hyline	-	-	1.37%	5.52%	11.02%	14.04%	8.56%
H&N Brown Nick	-	-	-	6.30%	2.20%	11.62%	9.50%

Source: Department of Veterinary Services

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### Sources of supply of day old female parent stocks

Country of Origin	Year						
	1995	1996	1997	1998	1999	2000	2001
European Union	66%	81.17%	66.11%	63.49%	68.96%	77.10%	81.53%
Canada	11%	10.35%	23.24%	11.58%	4.78%	-	-
Indonesia	23%	8.48%	-	13.50%	15.77%	10.26%	12.25%
USA	-	-	10.65%	11.43%	10.49%	12.64%	6.22%

Source: Department of Veterinary Services

### Pullet Production

The actual production of day old pullets in 2001 was around 21.7 million birds. The southern region was expected to supply about 57.51% of the total production. A total of about 107,000 day old commercial layer pullets also came in from Sarawak.

The average ex-farm price of day old pullets was RM 1.80 per chick. Prices differed between firms but, on average, the price of day old pullets was stable.

The total production of day old pullets for 2002 is projected to be around 22.785 million birds, which is 5% higher than in 2001.

### Production Capacity of Layer Breeding Firms In 2001

Annual production capacity (million day old pullets)	Number of breeding firms			
	Southern	Central	Northern	Total
Below 1 million	1	2	3	6
1 to < 2 million	-	2	1	3
2 to < 4 million	1	1	-	2
4 to < 8 million	1	-	-	1
Total	3	5	4	12

Southern region: Johor

Central region : Melaka, Negeri Sembilan and Selangor

Northern region: Perak, Penang, Kedah and Perlis

Source: Department of Veterinary Services

### Local production of commercial day old pullets, 1995-2001

Year	Local production of commercial day old pullets	% change in production
1995	24.1 million	-5.4
1996	21.7 million	-10
1997	21.4 million	-1.4
1998	19.1 million	-10.7
1999	20.3 million	6.3
2000	19.5 million	-3.9
2001	21.7 million	11.3

Source: Department of Veterinary Services



## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### Table Egg Production

The table eggs production in 2001 was around 5,720 million against a previous recorded figure of 5,620 million. This was about 1.78% higher than in 2000. The production was approximately 15.8 million eggs daily.

The average yearly traded ex-farm price was about 15.82 cents per egg, which was about 0.18 cents lower compared to 2000 prices. Overall, the price of each grade fluctuated within 6 cents to 8 cents in the year. Cost of production is estimated to be between 14.6 cents and 15.5 cents per egg. Grades of eggs range from AA to C.

### Production of Table Eggs, 1980-1989 vs. 1990-2001

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989		
Production of eggs (millions)	2,311	2,270	2,373	2,686	2,857	3,076	3,270	3,450	3,860	3,900		
% change	22	-1.8	4.5	13.2	6.4	7.7	6.3	5.5	11.9	1.0		
Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Production of eggs (millions)	5,029	5,030	5,780	5,688	5,719	6,634	6,015	6,300	5,860	5,572	5,620	5,720
% change	28.9	0.0	14.9	-1.6	0.5	16.0	-9.3	4.7	-7.0	-4.9	0.86	1.78

Source: Department of Veterinary Services

### Average Ex-Farm Price Of Table Eggs, 1995-2001

Year	1995	1996	1997	1998	1999	2000	2001
Average ex-farm price of eggs (sen)	14.4	16.3	15.8	16.4	17.8	16.0	15.8
% change	N/A	13.2	-3.1	3.8	8.5	-10.11	-1.13

Source: Department of Veterinary Services

The average farm price of eggs was below cost of production throughout most of 1995, in the wake of a significant increase in feed cost. Despite efforts to cull layer hens and the reduction of intake of replacement day old pullets, ex-farm price remained at levels that were not profitable for farmers. In fact, the financial stress began to take its toll on the less efficient farms and those which were less capital intensive. Producers continued to reduce production in 1996 in an attempt to boost price. However, conditions remained unfavorable. Fortunately continued efforts subsequently saw the increase in the price of eggs during the second half of 1996, which was sustained until the end of the year.

Egg prices in 1997 were no better than the previous year with average farm price at about 15.8 sen, with per unit cost of production ranging from 15.00 to 16.23 sen. This was in comparison to average ex-farm price in 1996 which was 16.3 sen while per unit cost was between 14.00 to 15.14 sen. Notwithstanding the low price, producers were still making marginal profits as a result of lower cost of production brought about by lower feed price during the same period. The depreciation of the Ringgit (RM) between August and December 1997 pushed up per unit cost of production from 16 sen to 18 sen rendering producers hard pressed to operate profitably during this period. The dampening of egg prices in 1997 was also attributed to the good prices in 1996 which stimulated expansion in production in 1997 resulting in excess supply in the market.

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

A 0.6 sen increase in the price of eggs in 1998 at 16.43 cents per unit did not bring the desired result as per unit cost of production was high, at 16.8 to 18.6 sen. The repercussions of the regional economic crisis further worsened the situation, causing feed cost to escalate as a result of the battered Ringgit (RM). Contractions in domestic demand as consumers found cheaper alternatives and a reduction in exports were also additional contributing factors to the generally bleak outlook of the industry. Despite a drop in production for the year, there was an estimated daily excess of 0.5 to 0.6 million eggs.

As the Malaysian economy recovered in early 1999, prices were good between January to August, with prices of the different grades ranging from 17.6 to 20.6 sen. The industry also benefited from the Ramadan month and the outbreak of the Nipah disease in early 1999 with eggs fetching good prices. September to October of 1999 saw the trend reversed, with prices falling sharply; hovering between 13.6 to 15.6 sen. Financially, the industry was not in a good situation in 2000. Except in June and in the two months towards the end of 2000, ex-farm prices generally were on the downturn. This was attributed to increasing production, which was not in tandem with market demand. For about nine months in 2000, the average ex-farm prices of various egg grades were at about or below cost of production. Less egg being exported in a situation of high production further weakened ex-farm prices. Eggs exported to Indonesia (which was about 21% of the total exported in 1999) dropped to only 5.77% in 2000, that is, from about 120 million to only about 28 million. With less exported, more eggs were available in the local market. It was estimated that the local market was in excess of about 280 million eggs in 2000, or about a quarter million a day. In 2000, there were 5.27 billion total eggs in the local market compared to 4.99 billion in 1999. This situation weakened prices. Good demand for eggs during the school holidays and the month when Muslims were preparing for the Hari Raya Aidilfitri in December 2000 helped ex-farm prices to recover slightly to a viable level for a short period.

The table egg production for 2001 is estimated at around 5,720 million, an increase of 1.78% over the preceding year. Weekly and daily production is forecast to be in the range of 106.14 million to 110.95 million and 15.16 million and 15.85 million eggs, respectively.

The situation in 2001 was more favourable than in 2000 due to the fact that more farms were prepared for further expansion thereby contributing towards higher production. Another factor that will determine the financial viability of the industry is the export market. It is important that producers explore new markets or production has to be adjusted to ensure financial viability for layer farmers. In the case of HLRB, it is exporting to Indonesia and Hong Kong, besides exporting predominantly to Singapore.

### Export and Import Trends

#### Export of table eggs

Year	Production of table eggs (billions)	Export Quantity	Export as percentage of production (%)
1995	6.634	661,565,878	9.97
1996	6.015	556,730,000	9.25
1997	6.300	670,740,000	10.65
1998	5.860	454,290,000	7.75
1999	5.572	579,380,000	10.39
2000	5.620	485,450,000	8.64
2001	5.720	722,650,000	12.63

Source: Department of Veterinary Services

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### *Export of table eggs vs. Import of egg products (1995 - 2001)*

Year	Export of Table Eggs (Millions)	Import of Egg Products ('000 Kilograms)
1995	661.57	71.72
1996	556.73	250.77
1997	670.74	283.35
1998	454.29	209.9
1999	579.38	295.63
2000	485.45	288.54
2001	722.65	255.94

Source: Department of Veterinary Services

A major export destination for table eggs is Singapore, which accounted for 99.07% of total table egg exports in 1995. Export constituted 9.97% of total production for that year. Accessibility to the export market is still rather limited as the world egg market is highly competitive. To be competitive, the industry has to be more efficient and shell eggs should not be the only form that is marketed. The industry should diversify into developing a variety of egg products for example egg yolk solid, egg yolk powder, egg albumen powder, egg white powder, whole egg solid and whole egg powder, which will enhance the market potential of the industry. HLRB has plans to start producing liquid pasteurized egg by the year 2004.

1996 saw the decline in both the total production and quantity exported of table eggs. In 1997, the export of eggs rose to 10.65% of local production. Besides Singapore being its main export market, Hong Kong and Brunei Darussalam registered an increase in purchase. More export market outlets were also made available in 1997. Export of table eggs decreased by 31.68% in 1998. An estimated 80% were exported to the Singapore market while Hong Kong made up 18.55% of the total. Eggs were also exported to Indonesia in the later part of 1998.

In recent years, there has been an upward trend in the import of egg products into Malaysia. A total of 283,352 kilograms of such products were imported in 1997, a marked increase from the previous year although in the following year it fell to about 210,000 kilograms. 1999 however saw an upsurge in the demand of imported egg products to approximately 296,000 kilogram, 40.8% higher than in 1998, with an import value of RM3.79 million. Belgium, Denmark and Australia constituted the main sources of supply.

The egg industry which experienced a market slump and high cost of production in 1998, improved in 1999 with export of eggs rising by 27.53% of which 79% of total export went to Singapore and the remainder to Indonesia. Export earnings amounted to RM 118.76 million. Import of egg products also increased at 40.84% from the preceding year with a total value of RM 3.79 million. Evidently the egg industry is a net contributor of foreign exchange.

Eggs exported in 2000 were about 485.45 million, 16.21% lower than in 1999. Of the total exported, 94.23% went to Singapore and the balance to Indonesia. Export of eggs in Singapore dropped 1.49% from 1999 figures. Total export value of eggs was estimated at RM86.71 million.

The import of egg products was about 288.54 thousand kilogrammes, 2.40% lower than in 1999. However, the import of egg white powder, frozen whole egg and whole egg powder rose from that in 1999. Between 1996 and 2000, import of egg white powder showed a steady increase.

As for 2001, there was a 48.86% increase in the export of eggs from 485.45 million eggs to 722.65 million eggs whereas for imports, it was reduced by 11.30%.

## 5. INFORMATION ON THE HLRB GROUP *(Cont'd)*

### **Global And Regional Markets and International Competition**

The greatest potential for growth for the commercial table egg industry would be found in the export market. With the rising affluence and improvement in quality of food consumption in the ASEAN countries, Malaysian egg producers are expected to enjoy favorable growth potential in export earnings. Being increasingly export oriented, the industry depends on the ability of local producers to compete in international markets. The implementation of World Trade Organization (WTO) and Asean Free Trade Area (AFTA) will open new opportunities for export of eggs while at the same time facilitate the competitive sourcing of raw materials. Although statistics show that Malaysian egg producers have successfully penetrated the ASEAN markets, ample opportunities are found in potentially lucrative markets like Hong Kong, Japan, Taiwan, Vietnam, China and the Middle East. Hong Kong and Japan represent Asia's biggest egg eaters with an annual per capita consumption of 350, compared to Malaysia's per capita consumption of 345. Hence, the growth potential of the export market has not been fully tapped.

Undoubtedly the demand for processed eggs will increase gradually as automation replaces labor in food manufacturing industry. The question bandied about lies in whether this demand can be met from local sources as manufacturing facilities for value added egg products require high capital investment. With a more liberal trading environment in the regional context of AFTA, the viability of such a spin-off will be enhanced. In fact, this may be the catalyst for investments to take place in this sector in an attempt to defend the local market share. Easier accessibility to the potentially larger regional markets will further encourage such a development to materialize. Economics will thus play a crucial role in determining the satisfactory outcome in this value-added egg product sector.

Besides price and quality being the main considerations in influencing successful export market strategies, more efforts need to be channeled into international promotions. At present most producers have been relying on advertisements in trade publications.

Market liberalization under the World Trade Organization (WTO) will render the industry more vulnerable to international competition in a currently protected market. At the regional level, the Common Effective Preferential Tariff (CEPT) aims to achieve a platform for free trade among ASEAN countries similar to that of the European Union, with import duties reduced between zero to five percent. In view of the increased competition from potentially higher level of imports from other ASEAN countries, Malaysia's egg producers should gear themselves for the challenges posed by the implementation of the Asean Free Trade Area (AFTA).

*(Source: Independent Market Research Report prepared by Abner)*

### **5.7.3 Future Growth**

The future viability of HLRB looks promising due to the following combination of market and corporate factors:

#### **Market**

- Demand for the Group's products targeted at a large consumer market is expected to grow with rising population and increase in disposable income.
- The huge export market that has not been fully exploited especially when trade liberalization under AFTA, with a total population size of about half a billion, materializes.
- Prices of raw materials are expected to remain stable.

## 5. INFORMATION ON THE HLRB GROUP *(Cont'd)*

### Corporate

- Since its corporatization, the Group has continuously endeavored in producing high quality eggs at affordable prices and has been successful in servicing a broad consumer base. This market segment has untapped potential for growth.
- The Group is very attuned to the changing consumer taste and endeavors to respond to this.
- Increase in capital investment and application of technology has led to higher productivity and efficiency.
- The Group has continuously improved on the nutritional value of its eggs through strict adherence of improved feed formula as well as engaging independent laboratories in Malaysia and Singapore.
- The Group enjoys a committed relationship with a broad base of suppliers and customers.
- The Group's total turnover and performance are comparable to that of other listed layer operators. In fact, it enjoys better profit margin due to its export-oriented strategy.

*(Source: Independent Market Research Report prepared by Abner)*

### 5.7.4 Competition

As acute competition exists within the industry, the company is aware of its competitors both in the local and overseas markets. Although the industry requires minimal capital investment for entry, market penetration to establish a strong presence is difficult to achieve.

Having the distinct competitive edge in operating on scale and producing quality products, a strong distribution network coupled with a large customer base are factors essential in securing its market position and in maintaining its profitability.

Below are some of its main competitors.

#### *Listed:*

- Lay Hong Berhad
- LTKM Berhad
- Consolidated Farms Bhd

#### *Private:*

- Teck Ping Chan Sdn Bhd
- TTK & Sons Poultry Farm Sdn Bhd
- Linggi Agriculture Sdn Bhd
- Chuan Hong Poultry Farm Sdn Bhd
- Teo Seng Farming Sdn Bhd
- Seng Choon Farm Pte Ltd
- N & N Agriculture Pte Ltd

*(Source: Independent Market Research Report prepared by Abner)*

### 5.7.5 Government Legislation, Policies and Incentives

The National Agriculture Policy ("NAP") is the underlying tool the government uses to develop, restructure and modernize the agriculture sector in Malaysia. The overriding objective of the Third National Agricultural Policy 1998 – 2010 (NAP3) is the maximization of income through the optimal utilization of resources in the sector. This would constitute maximizing the sector's contribution to national income and export earnings as well as maximizing the income of producers.

## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

Specifically the objectives of policy are:

1. To enhance food security;
2. To increase productivity and competitiveness of the sector;
3. To deepen linkages with other sectors;
4. To create new sources of growth for the sector; and
5. To conserve and utilize natural resources on a sustainable basis.

These aims augur well for the chicken layer industry, which HLRB operates in. This policy would facilitate sufficient and sustainable supplies of raw materials to producers. The NAP3 also encourages the application of bio-technology and high technology in food production. Hence application of scientific research would enhance the quality of food production as well as boosting productivity.

Malaysia continues to promote a policy that is receptive to investments in food production. In fact, in an effort to promote value added production and technological improvements in the operation of the livestock industry, incentives are offered. The government has identified the need to encourage existing producers to upgrade production capacity and machinery and to venture into value added and further processed products for both chicken meat and eggs. Such a development will not only increase competitiveness internationally and reduce the import value of food products but will also create better linkages within the domestic food sector. The substitution of local processed egg products would contribute to foreign exchange earnings with the added bonus of the product in a fresh form.

More specifically the government offers attractive incentives for investments in promoted products and activities in the manufacturing, agriculture and services sector, which are found in the Promotion of Investments Act 1986 and the Income Tax Act 1997.

*(Source: Independent Market Research Report prepared by Abner)*

### 5.7.6 Demand/Supply Conditions

HLRB supplies an average of 50% of its table egg output to the export market namely Singapore, Indonesia and Hong Kong, and the rest constitutes domestic demand. The Klang Valley represents 40% of the local demand, 30% is attributed to the state of Malacca, 20% to Johor while the remaining is sold to Penang. Day old pullets are only entirely sold to local layer farms. The Company is accredited by the Primary Production Department (PPD) of Singapore to export day old chicks to the Republic. However due to the high demand in the local market for its day old chicks, it is not at present supplying the Singapore market.

The fertilizer output of GFF caters exclusively to the local market.

*(Source: Independent Market Research Report prepared by Abner)*

### 5.7.7 Threat of substitute products

Increasing market sophistication had led to the packaging and labeling of in-shell eggs being offered in modern retail establishments. As the lifestyle of future consumers become radically different and as automation replaces labour in the food processing industry, the demand for ready to use processed eggs may see substantial increases. The current level of demand is met entirely by imports.

It is expected that with the liberal trading environment particularly in the context of the ASEAN Free Trade Area (AFTA), the probability of processed egg products entering the consumer market will be significantly higher. The expected bid by the local industry to capture a share of this largely untapped market could be the much needed catalyst for investments to materialize in this sector. The easier access to a potentially larger regional market will also provide the additional impetus.

**5. INFORMATION ON THE HLRB GROUP (Cont'd)**

Being cognizant of such developments within the industry, HLRB plans to make forays into this potentially lucrative processed egg market, namely liquid pasteurized egg in the near future. Judging by the consumption pattern of processed eggs for the past five years, it is evident that there is definitely a tremendous market potential in these value added egg products.

**5.7.8 Summary of Outlook and Prospects of The Industry**

As Malaysia continues on its path of economic recovery accompanied by rising population and enhanced purchasing power, the poultry industry can be expected to exert a stronger presence in the economy. It can continue to develop further and be a major provider of protein food for Malaysian consumers. The pace of growth of the industry will to no small extent be dependent on governmental support and encouragement for continued investment in technology by the private sector. It is envisaged that such measures will bring about increased production efficiency and improved levels of quality in all aspects of production.

HLRB with its fully integrated facilities, acquisition of state of the art technology and environmental friendly approach to its operations, is in a strong position to meet the expectations of an increasingly sophisticated consumer market. Not only has the company proven its mettle in an increasingly competitive industry, its competitive pricing, quality products, consistent investment in operational facilities and technology will enable it to capture a larger market share. Increased sales and profitability leading to financial growth will therefore secure the company's future within the industry.

Market oversupply of eggs and the high cost of production from strong prices of feed resources, are some of the major challenges faced by the industry. Industry players could do well to take more aggressive steps of exploring opportunities outside the domestic markets and to internalize feed meal production within their operations. This can help improve the prospect of the local egg market. A positive development from the effects of a glut is that market forces will no longer make it profitable for less efficient and traditionally run farms to compete on an equal footing with larger and modern ones hence making way for better allocation of resources in the industry.

HLRB's aggressive foray into the export markets which represents an average of around 58% of its total turnover for the last four financial years (1997-2000) will not only allow the company to exploit the currency situation to its advantage but will contribute to propel the egg sector into a Malaysian powerhouse within the BIMG-EAGA (Brunei, Indonesia, Malaysia, Philippines, East Asia Growth Area) region. This will allow the Malaysian egg industry to compete with other poultry exporting nations and contribute to the country's international competitiveness. The Group has also in the last two years gained a foothold in the Hong Kong and Indonesian markets, paving the way for greater accessibility to the other regional markets once the AFTA and WTO come into effect.

*(Source: Independent Market Research Report prepared by Abner)*

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**5. INFORMATION ON THE HLRB GROUP (Cont'd)****5.8 Major Customers (contributing more than 10% of revenue)**

One of the factors that determines the Company's impressive performance is its wide customer base. Some of its major customers have been trading with the company since its inception. Its emphasis on producing fresh and high quality eggs has been crucial in maintaining a committed relationship with its customers who range from overseas importers to local wholesalers and distributors. The Group is not dependent on any single customer. Backlog of orders does not present a problem to the Company as production is adjusted for a steady and viable ex-farm price.

**HLRB Top 10 Customers, January to December 2001**

Name of Customers	Country/ Nationality	Years of relationship
Yanhong Trading Enterprise	Singapore	6
Lam Leng Trading Co	Singapore	6
Syarikat Perniagaan Sung Chai	Malaysia	7
Chop Koh Seng Choon	Singapore	6
Tew Seng Cheow Kee	Singapore	3
Living Trading Pte Ltd	Singapore	3
Ge Sheng Heng Trading	Malaysia	5
Consolidated Farms Berhad	Malaysia	5
Khwan Hup Farming Pte Ltd	Singapore	4
Huat Soon Trading Co	Malaysia	3

*(Note : The above top 10 customers individually contributes less than 10% of HLRB's total revenue)*

**5.9 Major Suppliers (supplying more than 10% of purchases)**

HLRB is able to maintain its cost of production at a low level as a result of its excellent relationship with suppliers of its raw materials and parent stock. The Group is therefore ensured a reliable supply of quality inputs that translates into minimal disruption in its operations thus avoiding any losses that may arise from idle capacity. The Company also enjoys trade discounts from bulk purchases made possible by its large scale operations which contribute to lower production costs.

Name of Suppliers	Country	Particulars	% of purchases from Jan to Dec 2001	Years of relationship
Hoe Seng Chan Co. Sdn Bhd	Malaysia	Soyabean / Corn / Zeolite Powder / Spent Grain Pellets	22.30	4
PGEO Edible Oils Sdn Bhd	Malaysia	Soyabean / Wheat Pollard	15.92	3
QL Pcedingstuffs Sdn Bhd	Malaysia	Corn / Soyabean	13.94	3

Although HLRB has to date not encountered any major problems in the supply of raw materials and parent stock, it is not dependent on any of its major suppliers as there is a large pool of suppliers available to HLRB allowing it to replace suppliers should the need arise. Other suppliers available to HLRB include Toepfer International Asia (M) Sdn Bhd, Ban Seng Guan Sdn Bhd, Cargill (Malaysia) Sdn Bhd, Coral Dynasty Sdn Bhd, Nam Yong Huat Luen Seng Sdn Bhd and FFM Berhad, all of whom can supply soya bean and corn to HLRB.



## 5. INFORMATION ON THE HLRB GROUP (Cont'd)

### 5.10 Future Plans, Strategies and Prospects of the Company

#### *Production of Value Added (Processed) Products*

The increased marketing sophistication has led to the packaging and labeling of in-shell eggs being offered in modern retail establishments. As the lifestyle of future consumers become radically different and as automation replaces labor in the food processing industry, the demand for ready to use processed eggs may see substantial increases. The current level of demand is met entirely by imports.

It is expected that with the liberal trading environment particularly in the context of the ASEAN Free Trade Area (AFTA), the probability of processed egg products entering the consumer market will be significantly higher. The expected bid by the local industry to capture a share of this largely untapped market could be the much needed catalyst for investments to materialize in this sector. The easier access to a potentially larger regional market will also provide the additional impetus.

Being cognizant of such developments within the industry, HLRB plans to make forays into this potentially lucrative processed egg market, namely liquid pasteurized egg by the year 2004. Judging by the consumption pattern of processed eggs for the past five years, it is evident that there is definitely a tremendous market potential in these value added egg products.

#### *Total import of processed eggs (1995-2001)*

Year	Quantity ('000 kilogram)	% change
1995	71.72	- 41%
1996	250.77	249%
1997	283.35	13%
1998	209.9	- 26%
1999	295.63	41%
2000	288.54	-2%
2001	255.94	11%

Source: Department of Veterinary Services

#### *Production of Egg Trays*

In line with the Group's expansion plan, RM6 million was invested in setting up an egg tray producing facility. The egg trays will be for in-house use and any excess will be sold to other egg producers in the market.

Not only has economies of scale justified the decision to embark on such a venture, the assurance of a steady supply of egg trays and potential source of revenue are also important consideration.

#### *Contribution to Economic Growth*

HLRB with its fully integrated facilities, acquisition of state of the art technology and environmental friendly approach to its operations, is in a strong position to meet the expectations of an increasingly sophisticated consumer market. Not only has the company proven its mettle in an increasingly competitive industry, its competitive pricing, quality products, consistent investment in operational facilities and technology will enable it to capture a larger market share. Increased sales and profitability leading to financial growth will therefore secure the company's future within the industry.

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**5. INFORMATION ON THE HLRB GROUP *(Cont'd)***

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Having established a feed mill factory within its operation, as have the other three listed companies, Lay Hong Bhd, LTKM Bhd and Consolidated Farms Bhd, has not only reduced the Group's costs of production but also allowed it to expand on the production of eggs in view of the increase in consumption per capita in Malaysia and its export markets. The lower cost of feed from the mill would also render the company more competitive vis-à-vis both local and foreign companies. It is envisaged that the Group's activities can help propel the sector into a Malaysian powerhouse within the BIMG-EAGA (Brunei, Indonesia, Malaysia, Philippines, East Asia Growth Area) region to avoid being swamped by other economies in the region. HLRB's move into full integration and adoption of production technology and the government's support for the industry, will in all likelihood change the landscape of agricultural excellence in Asia, raising the level of competition among the region's egg producers to new heights.

*(Source: Independent Market Research Report prepared by Abner)*

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