

#### 4. INFORMATION ON THE DBE GROUP

##### 4.1 Incorporation

DBE was incorporated in Malaysia under the Companies Act, 1965 on 2 January 2001 as a private limited company under the name of DBE Gurney Resources Sdn Bhd. On 6 February 2003, the Company was converted to a public limited company and since then assumed its present name.

DBE is principally an investment holding company. The subsidiaries of DBE and their principal activities are as follows:-

Subsidiary Companies	Date and place of incorporation	Issued and paid-up share capital (RM)	Effective Equity interest (%)	Principal Activities
DBE Breeding	19/03/1991/ Malaysia	1,450,000	100	Operating poultry breeder farms and sale of eggs
DBE Hatchery	15/09/1994/ Malaysia	350,000	100	Hatchery of broiler chicks
DBE Poultry	05/12/1995/ Malaysia	5,000,000	100	Operating broiler farms, trading in related farm products and materials and poultry feedmill operations
DBE Food Processing	15/09/1994/ Malaysia	600,000	100	Processing and sale of chicken and other food stuff
DBE Marketing	27/11/1995/ Malaysia	500,003	100	Trading of broilers, feeds and related poultry farm products
DBE Gurney Chicken	03/10/1995/ Malaysia	800,000	100	Operating retail food and beverages sale outlets
DBE Feedmills	16/11/1996/ Malaysia	3	100	Dormant

##### 4.2 History of the DBE Group

The DBE Group was founded as a broiler farm operator in 1986 by the Ding brothers, namely Ding Choon Yung and Dato' Ding Chong Chow under the name of Ding Brothers Enterprise. The Group has since then diversified into breeding, hatchery, processing and wholesaling and retail operations. The Group's expansion plans with the objective to become a fully integrated broiler producer started since early 1990s with the setting up of various subsidiaries to undertake and manage each downstream and upstream operation respectively.

In 1991, DBE Breeding was formed to take over the Group's breeding farms. DBE Hatchery and DBE Food Processing were set up in 1994 to run the Groups' hatchery and processing plant respectively. The breeding farms and hatchery are located near the Group's headquarters in the district of Manjung, Perak.

Later in 1995, DBE Poultry was founded to take over the broiler farming operations from contract growers, which eventually became the main suppliers of broilers to the Group. Presently, most of the Group's broiler farms are located in the districts of Gelung Pepuyu and Changkat Kruing, Perak. Gelung Pepuyu and Changkat Kruing is about 35 km and 20 km from the Group's headquarters in the district of Manjung, Perak and Changkat Kruing, Perak respectively. In 1995, DBE Marketing was established as the marketing arm of the Group.

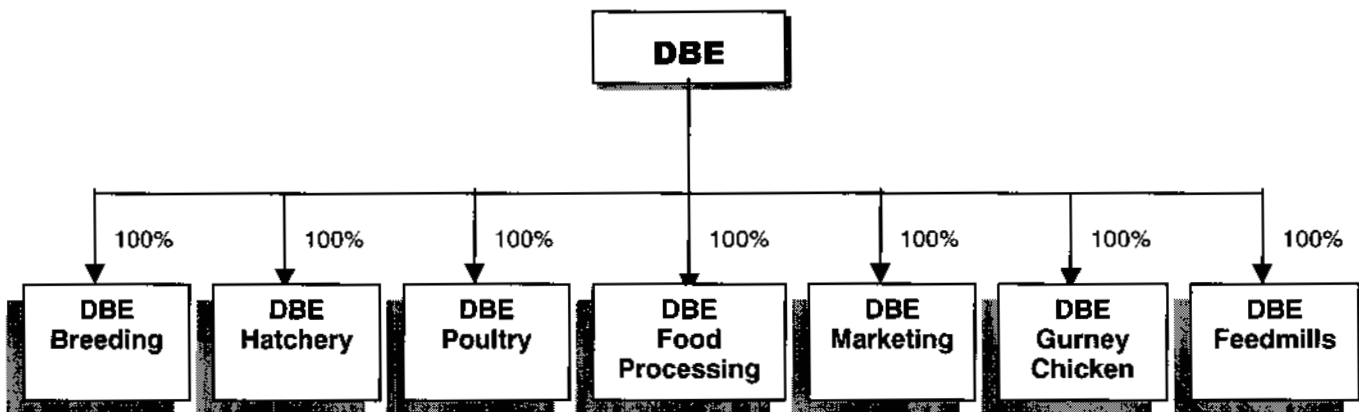
**4. INFORMATION ON THE DBE GROUP (CONT'D)**

The Group moved downstream with the establishment of DBE Gurney Chicken, which run the Group's wholesale and retail outlets since 2000. Presently, the Group has one(1) wholesale/retail outlet located in Seri Manjung, Perak, two(2) in Klang Valley and one (1) in Bukit Mertajam, Penang, which are named "Gurney Chicken".

In 2001, the Group commenced the construction of its in-house feedmill on a 4.63-acre plot in the district of Manjung, Perak and located in the Lumut Port Industrial Area. The feedmill machinery is supplied by Jiangsu Muyang group, a feedmill machinery supplier from China. The feedmill commenced operation in July 2002.

In 2003, the Group's processing plant relocated its operations from Ipoh, Perak to a light industrial area in Taman Prima Selayang, Selangor.

The present structure of the Group is shown below:-



#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

##### 4.3 Share Capital and Changes in Share Capital

The present authorised share capital is RM50,000,000 comprising 100,000,000 ordinary shares of RM0.50 each, whilst its issued and paid-up share capital is RM34,200,000 comprising 68,400,000 ordinary shares of RM0.50 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
02.01.2001	5	1.00	Cash	5
22.05.2001	995	1.00	Cash	1,000
25.02.2002	14,000,000	1.00	Acquisition of DBE Breeding, DBE Hatchery, DBE Poultry, DBE Food Processing, DBE Marketing, DBE Chicken and DBE Feedmills for a total purchase consideration of RM19,534,121 via issuance of 14,000,000 new DBE shares	14,001,000
25.02.2002	161,290	1.00	Cash	14,162,290
05.07.2002	2,943,511	1.00	Cash	17,105,801
20.10.2003	4,487,558	1.00	Conversion of preference shares	21,593,359
25.10.2003	12,606,641	1.00	Bonus Issue of 12,606,641 new DBE shares on the basis of 584 new DBE share for every 1,000 existing shares held	34,200,000
27.10.2003	68,400,000	0.50	Sub-division of shares	34,200,000

##### 4.4 Listing Scheme

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

###### (i) Conversion of Preference Shares by PNS

The Conversion of Preference Shares will entail the conversion of 4,487,558 cumulative redeemable convertible preference shares by PNS to 4,487,558 ordinary shares of RM1.00 each in DBE.

On 11 February 2002, Raja Taharudin bin Raja Datuk Nong Chik, PNS, DBE and the existing shareholders of DBE, namely Dato' Ding Chong Chow, Ding Seng Huat, Ding Choon Yung, Cheng Lay Miew and Hong Lew Wea, entered into a Subscription Agreement for PNS's subscription of 2,943,511 new ordinary shares of RM1.00 each in DBE at RM1.55 per share and 4,487,558 new cumulative redeemable convertible preference shares of RM1.00 each at RM1.00 per share. On 31 January 2003, all the aforesaid parties together with Fortune Junction, a company controlled by some of the shareholders of DBE, entered into a Supplemental Subscription Agreement whereby all terms, conditions and covenants etc under the Subscription Agreement shall be valid and binding on Fortune Junction.

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

Pursuant to the injection by PNS, the Bumiputera equity stake in DBE increased from 1.14% to 18.15%. The Bumiputera equity stake was further increased to 35.16% pursuant to the Conversion of Preference Shares. The Conversion of Preference Shares was completed on 20 October 2003.

(ii) **Bonus Issue**

DBE has undertaken a bonus issue of 12,606,641 new ordinary shares of RM1.00 each to the existing shareholders of DBE on the basis of approximately 584 new ordinary shares for every approximately 1,000 existing ordinary shares held in DBE. The new DBE shares issued pursuant to the Bonus Issue rank pari passu in all respects with the then existing ordinary shares of DBE. The Bonus Issue was completed on 25 October 2003.

(iii) **Sub-division**

Upon the implementation of the Bonus Issue, the par value of the existing ordinary shares of RM1.00 each was subdivided into two(2) new ordinary shares of RM0.50 each. Consequently, the number of issued and paid-up share capital of DBE had increased to 68,400,000 shares of RM0.50 each. The sub-division was completed on 27 October 2003.

(iv) **Initial Public Offering**

Upon completion of the Sub-division, DBE will undertake an IPO as follows:-

- (i) public issue of 11,600,000 new ordinary shares of RM0.50 each in DBE at an issue price of RM1.20 per share; and
- (ii) offer for sale of 9,400,000 existing ordinary shares of RM0.50 each in DBE at an offer price of RM1.20 per share.

The 11,600,000 Public Issue Shares and 9,400,000 Offer Shares arising from the IPO will be allocated and allotted in the following manner:-

- (i) 6,000,000 of the Public 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;
- (ii) 4,000,000 of the Public Issue Shares will be reserved for the eligible employees, Directors and/or business associates of the DBE Group;
- (iii) 7,000,000 of the Public Issue Shares and Offer Shares will be reserved for placees to be determined after obtaining the SC's approval for the Proposals; and
- (iv) 4,000,000 of the Offer Shares will be reserved for Bumiputera investors to be approved by the MITI to meet the minimum bumiputera shareholding spread of 30% upon listing as stipulated by the relevant authorities.

All the new DBE Shares to be issued pursuant to the Public Issue rank pari passu in all respects with the then existing Shares in the Company.

In the event that there are excess securities in respect of the subscription, the Company will allocate all excess securities on a fair and equitable manner.

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

##### 4.5 Business Overview

##### 4.5.1 Principal Products and Activities

The DBE Group principal activities are poultry and livestock breeding, hatching and rearing, operating chicken slaughtering house and processing, sale and wholesaling of poultry, day-old chicks, related poultry farms products and other food products and feedmill operations.

##### 4.5.2 Production Output

The production output of DBE's broilers, day-old chicks and eggs for the past five (5) years ended 31 December 2002 and the period ended 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus) are as follows:-

Financial year ended 31 December	Broilers		Day-old chicks	Eggs
	Quantity	Weight (kg)	Quantity	Quantity
1998	4,015,200	8,582,693	5,695,000	5,830,000
1999	4,080,893	8,792,950	5,178,955	5,303,522
2000	5,203,293	10,161,043	6,982,493	9,063,004
2001	6,057,440	14,449,605	7,546,330	9,586,987
2002	9,573,363	20,125,612	8,730,400	10,678,688
15 December 2003	12,041,580	24,083,159	8,562,248	10,707,407

##### 4.5.3 Technology Used

As a broiler producer, one of the major factors to sustain growth and competitiveness is the high quality of products. To ensure that the quality is maintained, the operations of the DBE Group have been substantially upgraded and some manual operations have been replaced by a new and better mechanization.

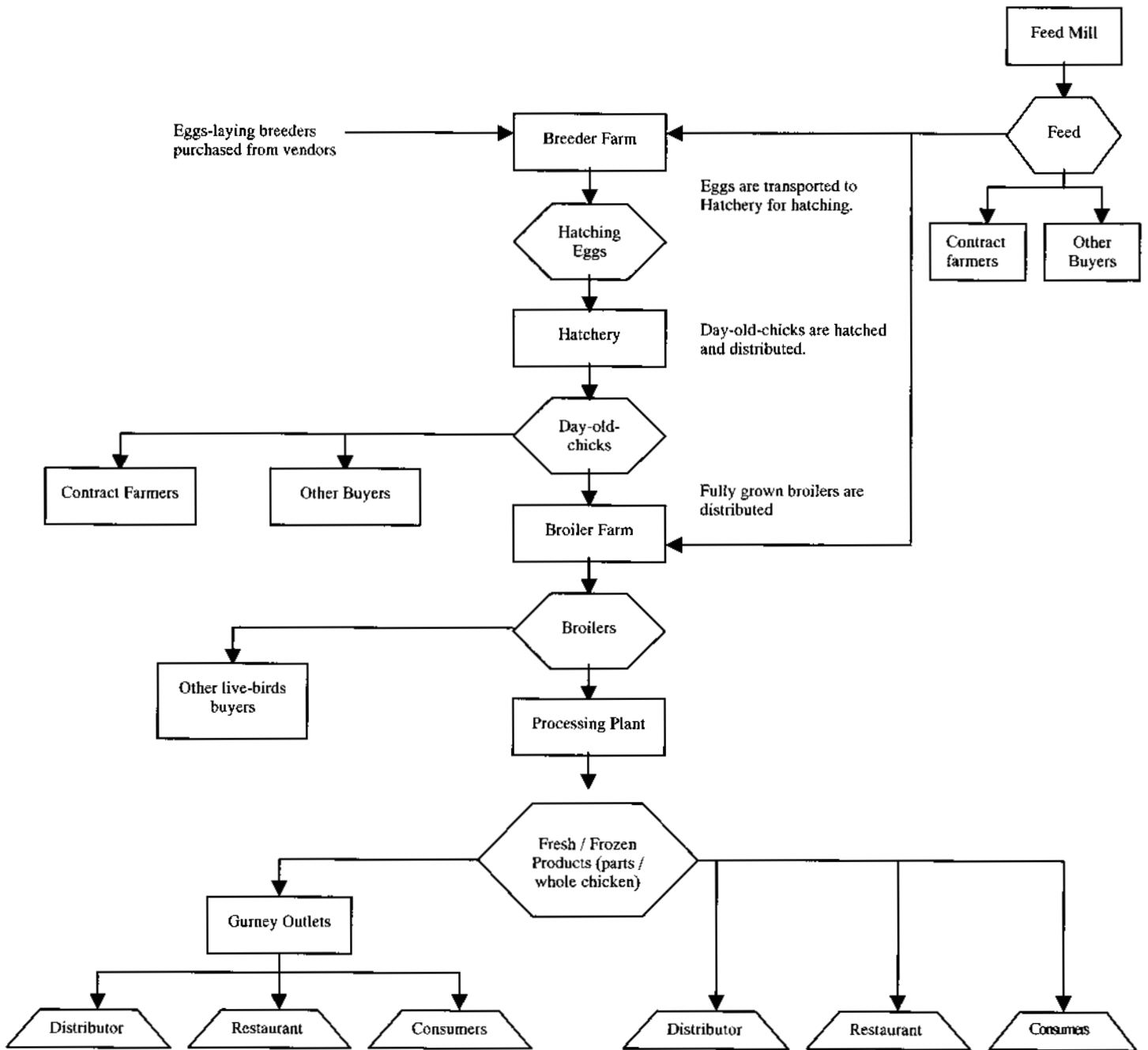
Some of the technology used in the Group's operations are as follows:-

Operations	New technology/ techniques used	Purposes
Breeding	Closed houses equipped with evaporative cooling system and automatic feeders and drinkers.	Helps to improve ventilation and enables a lighting programme be applied to ensure uniformity of the breeder flocks.
Hatchery	An incubator consisting of six sets of setters and hatchers.  Automatic scanner for eggs inspection.	Allows the temperature, humidity and ventilation to be carefully monitored to increase hatchability and to achieve maximum number of good quality day-old chicks.
Broiler farms	Switching from slated flooring houses to closed house system.	Helps to improve ventilation and growth of broilers.
Processing/ slaughtering	Semi-automatic processing machinery, which involve stunning, scalding, feather plucking, spiral chilling and cleaning.	It increases efficiency and enhances the plant capacity.  It also helps to improve hygiene conditions of the workplace and the products and to enhance cost savings by reducing the number of processing workers.
Feedmill	A fully computerised feed production machinery designed and supplied by Jiangsu Muyang group from China.	Produces various types of feed (mesh, crumble, pellet), with a current production output of 15 tonnes/hour, expandable to 30 tonnes/hour.

Further information of the technology used and upgraded operations of the DBE Group are set out in Section 4.9(c) of this Prospectus.

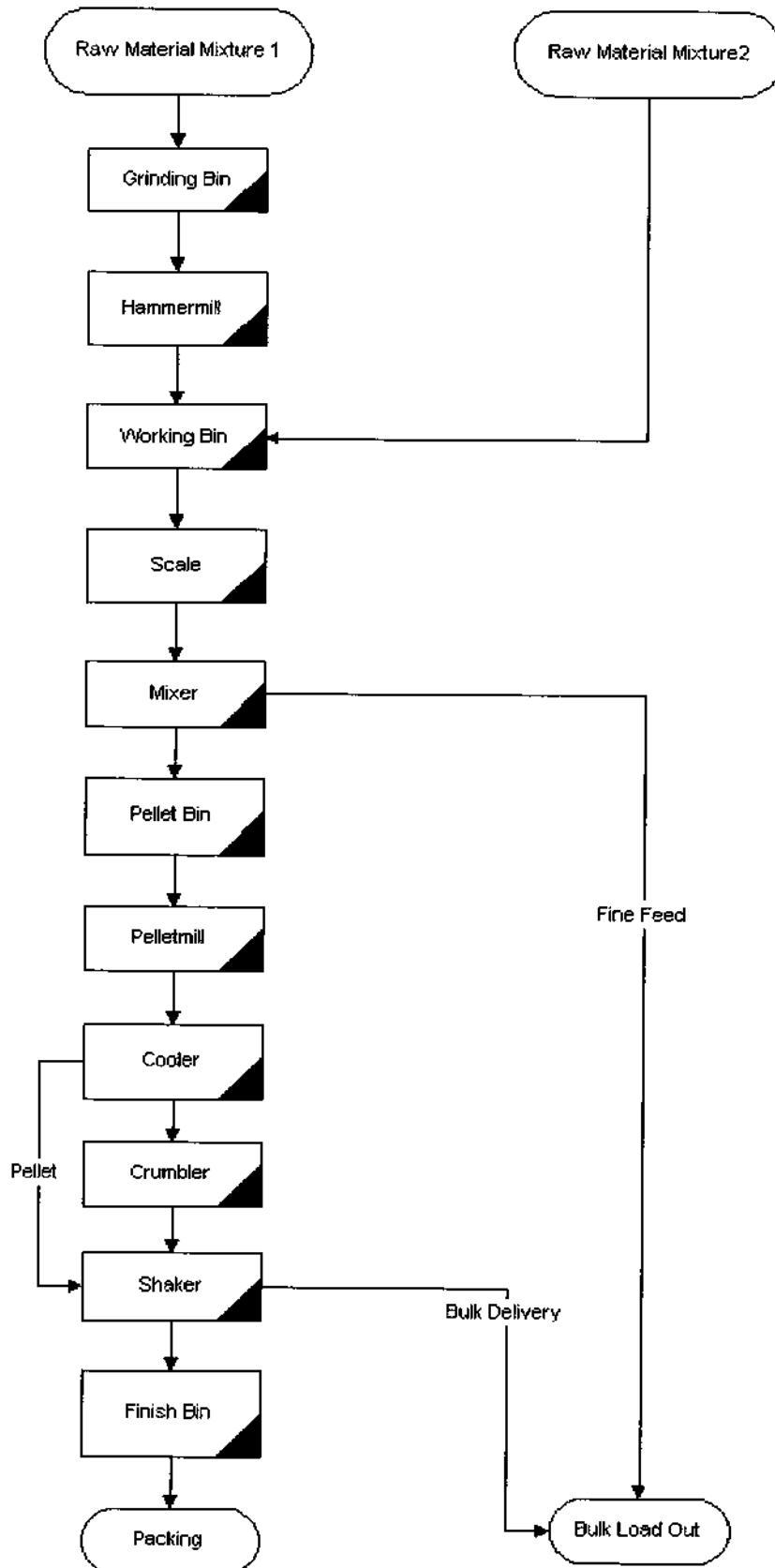
**4. INFORMATION ON THE DBE GROUP (CONT'D)**

**4.5.4 Production Process Flow Chart – Integrated Poultry Operator**



4. INFORMATION ON THE DBE GROUP (CONT'D)

4.5.5 Feedmill Processing Flowchart



Feedmill Production Flowchart

**4. INFORMATION ON THE DBE GROUP (CONT'D)****4.5.6 Patent, Trademark and License**

Presently, the Group's major licences and permits are as follows:

No.	Type of Licence and Permit	Date of Issuance	Date of Expiry	Description of Licence
	<i>DBE Gurney Chicken</i>			
1.	Business Licence from Majlis Perbandaran Manjung	1 January 2003	<sup>^</sup> 31 December 2003	This licence is granted to DBE Gurney Chicken for storage of frozen food and advertising the business on advertisement board(s) at No.385 Taman Samudera, 32200 Sitiawan, Perak.
2.	Advertising Permit from Majlis Perbandaran Petaling Jaya	21 October 2003	<sup>^</sup> 31 December 2003	This licence is granted to DBE Gurney Chicken for advertising the business on advertising board(s) at No. 40, Jalan PJS 8/6, Sunway Mentari, Bandar Sunway, 46150 Petaling Jaya.
3.	Business Licence from Majlis Perbandaran Ampang Jaya	26 December 2003	<sup>^</sup> 31 December 2003	This licence is granted to DBE Gurney Chicken for the storage of frozen food and advertising the business on advertisement board(s) at No.2724, Jalan Permata 4, Taman Permata Hulu Klang, 53200 Kuala Lumpur. The licence must be displayed in the licensed premises and renewed upon expiry.
4.	Business Licence from Majlis Perbandaran Petaling Jaya	1 January 2003	<sup>^</sup> 31 December 2003	This licence is granted to DBE Gurney Chicken for the operation of a grocery and warehouse at No. 40, Jalan PJS 8/6, Sunway Mentari, Bandar Sunway, 46150 Petaling Jaya. It is a condition in the licence that it must be displayed in the shop premises, and no tables and chairs may be placed outside the food outlet.
5.	Business Licence from Majlis Perbandaran Seberang Perai	24 January 2003	<sup>^</sup> 31 December 2003	This licence is granted to DBE Gurney Chicken to act as a licenced wholesaler of fresh and frozen chickens and to advertise the business on advertisement board(s) at No.13, LPU 7 Bandar Perda, 14000 Bukit Mertajam, Penang.
6.	Licence from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna	9 June 2003	<sup>^</sup> 2 April 2008	This licence is granted to DBE Gurney Chicken for the sale of chicken at No.385 Taman Samudera, 32200 Sitiawan, Perak under the Control of Supplies (Chicken) Regulations 1996.  DBE Gurney Chicken is required to inform and obtain approval from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna before increasing the selling price of chickens.
7.	Licence from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna	14 September 2002	<sup>^</sup> 26 August 2007	This licence is granted to DBE Gurney Chicken for the sale of chicken at No.13, LPU 7 Bandar Perda, 14000 Bukit Mertajam, Penang under the Control of Supplies (Chicken) Regulations 1996.  DBE Gurney Chicken is required to inform and obtain approval from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna before increasing the selling price of chickens.
8.	Licence from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna	10 August 2002	<sup>^</sup> 31 July 2004	This licence is granted to DBE Gurney Chicken for the sale of chicken at No.2724, Jalan Permata 4, Taman Permata Hulu Klang, 53200 Kuala Lumpur under the Control of Supplies (Chicken) Regulations 1996.  DBE Gurney Chicken is required to inform and obtain approval from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna before increasing the selling price of chickens.
9.	Licence from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna	29 September 2003	<sup>^</sup> 24 September 2004	This licence is granted to DBE Gurney Chicken for the sale of chicken at No.40, Jalan PJS 8/6, Bandar Sunway, Petaling Jaya, Selangor, under the Control of Supplies (Chicken) Regulations 1996.  DBE Gurney Chicken is required to inform and obtain approval from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna before increasing the selling price of chickens.



**4. INFORMATION ON THE DBE GROUP (CONT'D)**

No.	Type of Licence and Permit	Date of Issuance	Date of Expiry	Description of Licence
10.	Certificate for weighing scale for DBE Gurney Chicken outlets in Bukit Mertajam, Sunway, Wangsa Maju and Seri Manjung from Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna	*	*	This is to certify that the weighing scale is correct and is in accordance with Akta Timbang dan Sukat 1972.
	<b>DBE Poultry</b>			
11.	Manufacturing Licence from MITI	30 January 2002	-	This licence is granted to DBE Poultry to act as a licensed manufacturer at Pelabuhan Lumut, Kampung Acheh, Mukim Lumut, Daerah Manjung, Manjung, Perak Darul Ridzuan for "Animal and Aquaculture Feed", subject to the conditions imposed under the Industrial Co-ordination Act 1975 with effect from 20 September 2002.
12.	Licence from Malaysia Palm Oil Board	15 August 2003	^31 August 2004	This licence is granted to DBE Poultry for the purpose of buying, storing and transferring oil palm.
	<b>DBE Food Processing</b>			
13.	Halal Licence for Slaughtering Chicken from Islamic Religious Department of Selangor	5 November 2002	# ^4 November 2003	The validity of this licence is to be restricted within the state of Selangor and for the sole purpose of slaughtering chicken. DBE Food Processing must produce this licence at any time when required by any authorised officer during inspection.
14.	Business License from Majlis Perbandaran Selayang	-	^31 December 2003	This license is granted to DBE Food Processing for the slaughtering of chickens, storage of produce from the slaughter of chickens, advertisement and sale of chicken meat.
15.	Manufacturing Licence from MITI	3 October 2003	-	This licence is granted to DBE Food Processing to act as a licensed manufacturer at No. 10 Jalan PS 4/2, Taman Prima Selayang, 68100 Batu Caves, Selangor for "Processed Chicken", subject to the conditions imposed under the Industrial Co-ordination Act 1975 with effect from 14 August 2003.

\* DBE Gurney Chicken Sdn Bhd has vide a letter dated 22 August 2003, confirmed that all the weighing equipment at their branches have valid certificates certifying the scales are correct.

# The Jabatan Agama Islam Selangor vide its letter dated 17 November 2003 had approved the renewal of the 'halal' certificate.

^ The respective licences and permits above are renewable upon expiry and there are no other conditions pertaining to the renewing of the said licences.

On 22 March 2002, DBE has applied for the registration of its trademark name "GURNEY" and "d.b.e" at the Trade Mark Registry, Kuala Lumpur. DBE had also applied for the registration of the trade mark "HARUMI" on 16 September 2002. As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), the above three applications are still pending approval from the Trade Mark Registry, Kuala Lumpur.

The manufacturing licences obtained by DBE Poultry and DBE Food Processing enables the Group to carry out feedmill operations and processing of chickens. As the Group at present operates only one feedmill in Pelabuhan Lumut, Sitiawan and one processing plant in Selayang, the issuance of and compliance with the conditions of the licences are vital for the continuous operation of the feedmill and processing plant.

Further, as the sale of chickens is regulated under the Control of Supplies (Chicken) Regulations 1966, the licences obtained by DBE Gurney Chicken and DBE Food Processing from the Ministry of Domestic Trade and Consumer Affairs are vital to the Group since the licences enable the Group to carry out the sale of processed chickens through its wholesale and retailing operations.

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

##### 4.5.7 Market Share/ Ranking

Based on the management's estimates as at 15 December (being the latest practicable date prior to the printing of this Prospectus), DBE is one of the major broiler producers in the state of Perak with market share of up to 20% of broiler produced in Perak and 3% of broiler supplies throughout Malaysia.

In order to improve and expand its market share and customer base, DBE has undertaken various steps as follows:-

- (i) Upgrade of breeding, hatching and processing operations to increase quality of products and efficiency of operations;
- (ii) Upstream expansion into feedmill operations in order to control the cost, availability and quality of feeds;
- (iii) Downstream diversification into wholesaling and retail operations to enhance control over the distribution channel and the price of products by selling directly to the consumers; and
- (iv) Provisions of support services to its customers, particularly the contract farmers to ensure consistency of feed quality and nutrition.

##### 4.5.8 Principal Markets

Based on the management estimates as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE has market share of up to 20% and 3% of broilers produced in the state of Perak and throughout Malaysia respectively. The major customers of the DBE Group and their contribution to the Group's total revenue in 2002 are set out in Section 4.9 of this Prospectus. In 2002, 27.38% of the broilers are supplied to the Group's processing plant that is operated under DBE Food Processing. At the processing plant, the broilers are processed and sold as fresh or frozen products to the Group's wholesaling units under DBE Gurney Chicken, other distributors and customers.

DBE also produces and sells day-old chicks to contract farmers and other buyers, which make up 51% of the Group's total sale of day-old chicks in 2003. The remaining 49% are supplied to the Group's broiler farms.

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), 100% of eggs and 95% of the feeds are supplied to the Group. The remaining 5% of feeds produced are sold to third parties. Presently, most of the Group's feedmill productions are consumed internally.

##### 4.5.9 Principal Place of Business

The location of principal place of business of the Group are as follows:-

**Head Office** : DBE  
Plot 137 & 138, Kawasan Perindustrian  
Pelabuhan Lumut, Kg. Acheh  
32000 Sitiawan,  
Perak Darul Ridzuan

**Breeding operations** : DBE Breeding  
Plot 137 & 138, Kawasan Perindustrian  
Pelabuhan Lumut, Kg. Acheh  
32000 Sitiawan,  
Perak Darul Ridzuan

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**4. INFORMATION ON THE DBE GROUP (CONT'D)**


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- Hatchery operations** : DBE Hatchery  
Plot 137 & 138, Kawasan Perindustrian  
Pelabuhan Lumut, Kg. Acheh  
32000 Sitiawan,  
Perak Darul Ridzuan
- Processing operations** : DBE Food Processing  
No. 1, Jalan PS 4/2  
Taman Prima Selayang  
68100 Batu Caves  
Selangor Darul Ehsan
- Poultry and feedmill operations** : DBE Poultry  
Plot 137 & 138, Kawasan Perindustrian  
Pelabuhan Lumut, Kg. Acheh  
32000 Sitiawan,  
Perak Darul Ridzuan
- Marketing operations** : DBE Marketing  
Plot 137 & 138, Kawasan Perindustrian  
Pelabuhan Lumut, Kg. Acheh  
32000 Sitiawan,  
Perak Darul Ridzuan
- Wholesaling and retailing** : DBE Gurney Chicken  
Plot 137 & 138, Kawasan Perindustrian  
Pelabuhan Lumut, Kg. Acheh  
32000 Sitiawan,  
Perak Darul Ridzuan

## Outlet addresses:

No.385, Taman Samudera  
32040 Seri Manjung  
Perak Darul Ridzuan

No. 40-1, Jalan PJS 8/6  
Sunway Mentari  
46150 Petaling Jaya  
Selangor Darul Ehsan

No.13, LPU 7, Bandar Perda  
14000 Bkt Mertajam  
Penang

No. 2724, Jalan Permata 4  
Taman Permata  
53200 Kuala Lumpur

**4.5.10 New Ventures**

The Group has recently ventured into the synergistic upstream feedmill operations. The Group's first in-house feedmill was fully operational in July 2002. The expansion into upstream feedmill operations enables the Group to ensure the availability and quality of feeds as well as the reduction in raw materials and consumables costs, which accounted for approximately 96.7% of the Group's total production cost in 2002. The DBE Group became a fully-integrated broiler producer with the commencement of its feedmill operations to complement the existing breeding, hatching, food processing as well as wholesaling business operations of the Group.

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

##### 4.5.11 Quality Control

To ensure good quality of products, the operations of the Group have been upgraded on a continuous basis and subject to strict hygiene conditions and requirements. The breeding farms have been completely renovated and rebuilt with closed houses equipped with the evaporative cooling system as well as automatic feeders and drinkers. The Group is also moving towards closed house system for all its broiler farms to replace the existing slated flooring houses. As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), the Group has thirteen (13) broiler houses with closed house system at Gelung Pepuyu, Perak and twenty (20) broiler houses with closed house system at Changkat Kruing, Perak.

The Group has targeted to have another ten (10) broiler houses with closed house system by the first quarter of 2004 upon completion of the same at Gelung Pepuyu and Changkat Kruing, Perak.

In 2002, Wong Kai Meng was appointed as General Manager for Quality Assurance to oversee the quality of the Group's products, particularly the broilers, breeders and feeds. His profile is set out in Section 5.5.2 of this Prospectus.

In addition to the above, the Group has maintained close coordination with the Department of Veterinary Services on disease control. The Department visits the breeder farms and hatchery annually. The last visit was done in March 2003 and the issuance of the certificate of National Avian Salmonellosis Control and Eradication Programme confirming that the breeder farms and hatchery are free from *Salmonella Enteritidis*, *S. Pullorum*, *S. Typhimurium* and *S. Gallinarum* is still pending.

##### 4.5.12 Interruptions/ Disruption in Business or Operations

There has been no interruption to the Group's business or operations in the past twelve (12) months prior to 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). Regular periods of long holidays and adverse weather condition are taken into account in management planning and their disruptive effects are minimised as much as possible.

##### 4.5.13 Staff Strength of the DBE Group

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), the Group employs a total of 308 employees. The management of the Group is of the opinion that its dedicated and efficient employees are instrumental to its success. In the past, there was no labour dispute and the management of the Group enjoys a good working relationship with the employees. Its employees do not belong to any organised union. As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), the Group has 86 foreign workers (including a supervisor) who are all legally employed.

The Group's employees are generally divided into four (4) categories as follows:

Category of Employees	Total number	Average no. of years of service
Directors and managerial	29	7
Executives and supervisors	*38	2
Clerical and related occupations (e.g. accounts, administration, finance and human resource etc.)	26	3
General workers (e.g. farm operators, factory operators, drivers etc.)		2
- Local workers	130	
- Foreign workers	85	
<b>TOTAL</b>	<b>308</b>	

\* Including 1 foreign supervisor.

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

The Group understands the need to maintain a high level of skilled and knowledgeable workforce for the Group's future growth. In-house training will be provided to staff on a regular basis. The Group will also enrol the employees for other external training in the future, if the need arises. In 2001, three (3) employees of the Group have attended external training and development programmes in introduction to manufacturing, fabrication, maintenance, operating, process of feed production machinery and software. The employees have also undergone training and seminars held by suppliers from time-to-time on topics such as vitamins usage, education on bacteria, virus and outbreak precautions and treatments and other information and technology related to poultry farming.

#### 4.6 Subsidiaries and Associated Companies

Details of the subsidiaries of DBE and their present principal activities are as follows:-

Subsidiary Companies	Date and place of incorporation	Issued and paid-up share capital (RM)	Effective Equity Interest (%)	Principal Activities
DBE Breeding	19/03/1991/ Malaysia	1,450,000	100	Operating poultry breeding farms and sales of eggs
DBE Hatchery	15/09/1994/ Malaysia	350,000	100	Hatchery of broiler chicks
DBE Poultry	05/12/1995/ Malaysia	5,000,000	100	Operating broiler farms, trading in related farm products and materials and poultry feedmill operations
DBE Food Processing	15/09/1994/ Malaysia	600,000	100	Processing and sale of chicken and other food stuff
DBE Marketing	27/11/1995/ Malaysia	500,003	100	Trading of broilers, feeds and related poultry farm products
DBE Gurney Chicken	03/10/1995/ Malaysia	800,000	100	Operating retail food and beverages sale outlets
DBE Feedmills	16/11/1996/ Malaysia	3	100	Dormant

DBE does not have any associated companies.

##### 4.6.1 DBE Breeding

###### (i) History and Business

DBE Breeding was incorporated on 19 March 1991 in Malaysia as a private limited company under the Companies Act, 1965. DBE Breeding, which was formed to undertake the broiler breeder farms of the Group, commenced operations in 1991.

The present principal activities of DBE Breeding are operating of poultry breeding farms and sale of eggs. As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Breeding has six (6) breeder farms with a total capacity to rear about 88,000 birds of breeder chicken and to produce approximately 900,000 hatching eggs per month. All the hatching eggs produced by DBE Breeding is being hatched by DBE Hatchery, another wholly-owned subsidiary of DBE.

DBE Breeding has 39 employees as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). DBE Breeding is a wholly-owned subsidiary of DBE.

**4. INFORMATION ON THE DBE GROUP (CONT'D)****(ii) Share Capital**

The present authorised share capital is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM1,450,000 comprising 1,450,000 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of DBE Breeding since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
19.03.1991	2,400	1.00	Cash	2,400
13.09.1991	997,600	1.00	Cash	1,000,000
27.09.1996	450,000	1.00	Cash	1,450,000

**(iii) Subsidiary and Associated Companies**

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Breeding has no subsidiaries or associated companies.

**4.6.2 DBE Hatchery****(i) History and Business**

DBE Hatchery was incorporated on 15 September 1994 in Malaysia as a private limited company under the Companies Act, 1965. DBE Hatchery, which was formed to oversee the operation of the Group's six incubators and to carry out the business of hatchery, aquaculture, graziers, dairy and poultry, commenced operations in 1994.

The current principal activities of DBE Hatchery are hatching of broiler chicks. Presently, DBE Hatchery owns six (6) sets of incubators that have a total capacity to accommodate 1,000,000 hatching eggs and produce approximately 800,000 day old chicks per month. Approximately 49% of the day-old chicks produced by DBE Hatchery are being utilised by its poultry farming under DBE Poultry, while the remaining 51% are supplied to the third parties which include the Group's contract farmers.

DBE Hatchery has 17 employees as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). DBE Hatchery is a wholly-owned subsidiary of DBE.

**(ii) Share Capital**

The present authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM350,000 comprising 350,000 ordinary shares of RM1.00 each. The changes in the issued and paid-up share capital of DBE Hatchery since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
15.09.1994	3	1.00	Cash	3
17.08.1995	99,997	1.00	Cash	100,000
30.09.1996	250,000	1.00	Cash	350,000

**(iii) Subsidiary and Associated Companies**

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Hatchery has no subsidiaries or associated companies.

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

##### 4.6.3 DBE Poultry

###### (i) History and Business

DBE Poultry was incorporated on 5 December 1995 in Malaysia as a private limited company under the Companies Act, 1965. DBE Poultry commenced operations in 1996. The principal activity of DBE Poultry is operating broiler farms, trading in related farm products and materials and operation of poultry feedmill. The Group's in-house feedmill commenced operations in July 2002.

DBE Poultry has 94 employees as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). DBE Poultry is a wholly-owned subsidiary of DBE.

###### (ii) Share Capital

The present authorised share capital is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each. The changes in the issued and paid-up share capital of DBE Poultry since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
05.12.1995	3	1.00	Cash	3
30.08.1996	499,997	1.00	Cash	500,000
10.01.2002	4,500,000	1.00	Bonus Issue	5,000,000

###### (iii) Subsidiary and Associated Companies

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Poultry has no subsidiaries or associated companies.

##### 4.6.4 DBE Food Processing

###### (i) History and Business

DBE Food Processing was incorporated on 15 September 1994 in Malaysia as a private limited company under the Companies Act, 1965. DBE Food Processing, which was formed to undertake the processing, manufacturing, wholesaling, retailing, dealing and distributing of canned products, commenced operations in 1994 in Ipoh, Perak. It relocated its processing plant to Taman Prima Selayang, Selangor on 18 August 2003.

The present principal activities of DBE Food Processing are processing and sale of chicken and other food stuff. Its present processing plant in Selayang, Selangor is equipped with semi-automatic mechanisation that can process up to 16,000 chickens per day based on one shift of 8 hours.

DBE Food Processing was awarded the Golden Bull Award 2003, Malaysia's 100 Outstanding Small Medium Enterprises ("SMEs") award organised by Nanyang Siang Pau on 30 May 2003 for being one of the top Malaysian 100 outstanding SMEs for excellent performance and achievements.

DBE Food Processing has 46 employees as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). DBE Food Processing is a wholly-owned subsidiary of DBE.

###### (ii) Share Capital

The present authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM600,000 comprising 600,000 ordinary shares of RM1.00 each.

**4. INFORMATION ON THE DBE GROUP (CONT'D)**

The changes in the issued and paid-up share capital of DBE Food Processing since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
15.09.1994	3	1.00	Cash	3
17.08.1995	99,997	1.00	Cash	100,000
30.09.1996	500,000	1.00	Cash	600,000

**(iii) Subsidiary and Associated Companies**

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Food Processing has no subsidiaries or associated companies.

**4.6.5 DBE Marketing****(i) History and Business**

DBE Marketing was incorporated on 27 November 1995 in Malaysia as a private limited company under the Companies Act, 1965. DBE Marketing, which was formed to undertake all the marketing of poultry and farm products for the Group, commenced operations in 1995. The present principal activities of DBE Marketing is trading of broilers, feeds and related poultry farm products.

DBE Marketing has 50 employees as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). DBE Marketing is a wholly-owned subsidiary of DBE.

**(ii) Share Capital**

The present authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM500,003 comprising 500,003 ordinary shares of RM1.00 each. The changes in the issued and paid-up share capital of DBE Marketing since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
27.11.1995	3	1.00	Cash	3
29.01.1996	500,000	1.00	Cash	500,003

**(iii) Subsidiary and Associated Companies**

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Marketing has no subsidiaries or associated companies.

**4.6.6 DBE Gurney Chicken****(i) History and Business**

DBE Gurney Chicken was incorporated on 3 October 1995 in Malaysia as a private limited company under the Companies Act, 1965 under the name of D.B.E. Clay Industries Sdn Bhd. On 16 October 1999, the company changed its name and since then assumed its present name. DBE Gurney Chicken, which was formed to undertake the broiler breeder farms of the Group, commenced operations in 2001.



**4. INFORMATION ON THE DBE GROUP (CONT'D)**

The current principal activities of DBE Gurney Chicken are operating wholesale/retail food and beverages sale outlets. Presently, DBE Gurney Chicken operates one (1) wholesale/retail outlet located in Seri Manjung, Perak, two(2) in Klang Valley and one (1) in Bukit Mertajam, Penang.

DBE Gurney Chicken has 62 employees as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). DBE Gurney Chicken is a wholly-owned subsidiary of DBE.

**(ii) Share Capital**

The present authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM800,000 comprising 800,000 ordinary shares of RM1.00 each. The changes in the issued and paid-up share capital of DBE Gurney Chicken since its incorporation are as follow:

<b>Date of Allotment</b>	<b>No. of Ordinary Shares</b>	<b>Par Value RM</b>	<b>Consideration</b>	<b>Total Issued and Paid-up Share Capital RM</b>
03.10.1995	2	1.00	Cash	2
21.10.1995	799,998	1.00	Cash	800,000

**(iii) Subsidiary and Associated Companies**

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Gurney Chicken has no subsidiaries or associated companies.

**4.6.7 DBE Feedmills****(i) History and Business**

DBE Feedmills was incorporated on 16 November 1996 in Malaysia as a private limited company under the Companies Act, 1965. DBE Feedmills is a dormant company.

DBE Feedmills has no employees as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus). DBE Feedmills is a wholly-owned subsidiary of DBE.

**(ii) Share Capital**

The present authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM3 comprising 3 ordinary shares of RM1.00 each.

There has been no change in the issued and paid-up share capital of DBE Feedmills since its incorporation.

**(iii) Subsidiary and Associated Companies**

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), DBE Feedmills has no subsidiaries or associated companies.

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**4. INFORMATION ON THE DBE GROUP (CONT'D)**

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**4.7 Industry Overview****4.7.1 General Overview of the Malaysian Economy*****Malaysian Economy***

After experiencing sluggish growth in 2001, the Malaysian economy rebounded strongly in 2002. Higher growth in 2002 bolstered optimism for a stronger economic performance in 2003 in anticipation of an improved economic world outlook. The prospect for a global economic recovery was, however, affected by recent geopolitical developments, in particular the war in Iraq, sporadic incidences of militancy and outbreak of the Severe Acute Respiratory Syndrome ("SARS"). During the second quarter, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probable prolonged and widespread SARS of epidemic that curtailed transport and tourism related activities besides trade and investment flows.

Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented by the Government's proactive stimulus package, have helped to sustain high growth in the real gross domestic product. After expanding 4.5% in the first half and with prospects of sustained growth in the second half, the economy is set to achieve its targeted growth of 4.5% this year, higher than the 4.1% achieved in 2002.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pick up in external demand in the second half of the year. On the domestic front, consumer spending continues to pick up, on account of favourable export earnings and high commodity prices, positive wealth effect from better stock market performance as well as rising consumer confidence. All sectors registered positive growth with manufacturing and services driving the economy.

*(Source : Economic Report 2003/2004)*

According to the Bank Negara Malaysia Report 2002, in the environment of heightened uncertainty in the global economy, growth in the Malaysian economy would be mainly domestic driven, supported by a modest growth in external demand. Real GDP growth has the potential to be sustained in the region of 4.5% in 2003 (4.2% in 2002). However, unlike 2002, when the public sector remained the principal driver of economic growth, private sector demand is expected to assume a more significant role in driving economic expansion in 2003.

The projections for growth in 2003 are based on a modest world economic growth, some pick-up in the global electronics industry, firm commodity prices and further expansion in intra-regional trade. The expectation of a moderate pace of growth takes into account the increasing strength of domestic sources of growth following the restructuring of the financial and corporate sectors since the crisis. These developments would provide further flexibility for the economy in managing the uncertainties emanating from the spillover of geopolitical tensions. Increased domestic sources of growth in the region and the consequent stronger growth in regional trade would also contribute towards growth in Malaysia.

*(Source: Bank Negara Malaysia Report 2002)*

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

##### 4.7.2 Livestock Industry

During the Seventh Malaysia Plan 1996-2000 ("7MP"), the livestock subsector recorded an improvement in terms of agricultural value added and grew at 3.1 per cent per annum, from RM953 million in 1995 to RM1.1 billion in 2000. The poultry industry continued to be the main source of growth for the livestock subsector accounting for RM4.3 billion in current value or 67.1 per cent of the total livestock produce in 2000. During the Seventh Plan period, it registered 8.8 per cent growth per annum, whereby production increased from 687,000 tonnes in 1995 to one million tonne in 2000.

During the Eighth Malaysia Plan 2001-2005 ("8MP"), livestock value added is projected to grow by 5.6 per cent per annum, from RM1.1 billion in 2000 to RM1.5 billion in 2005, particularly through the adoption of new technologies and upgrading of existing production technologies. To meet the expanding local and export markets, the production of chicks and ducklings, processing and marketing of poultry and higher value added products will be further integrated. Poultry production is expected to increase by 4.8 per cent per annum, from one million tonne in 2000 to 1.3 million tonnes in 2005.

In support of this, the total allocation of the various public agencies involved in agricultural development during the 8MP is RM7.9 billion representing 7.1% of the total 8MP allocation of RM110 billion. Out of this, a total of RM127.5 million is allocated for the livestock subsectors.

*(Source: Eighth Malaysia Plan 2001-2005)*

Efforts will be undertaken to ensure adequate supply of poultry and eggs for the domestic market and to capitalise on export markets, including to develop Malaysia's potential as an International Halal Food Hub. Capability for inspection, monitoring, standardization and certification for Malaysia Halal Standard for livestock products and industrial livestock-based inputs will be strengthened and this standard will be internationally promoted. The international marketing of branded halal livestock products and industrial livestock-based inputs will be undertaken.

*(Source: Third National Agricultural Policy 1998-2010)*

##### **The Feedmilling Industry**

Feed constitutes a large proportion of the cost of production in any livestock industry. Raw ingredients for animal feeds are not produced in Malaysia. As such the intensive livestock industries, particularly pig and poultry are dependent on imported feedstuffs. The imported ingredients range from cereal grains, vegetable and animal proteins such as soybean meal, corn gluten meal, fish meal and meat and bone meal, mineral sources and various micro-ingredients: vitamins, minerals and other additives used to improve feed efficiency and growth (Table 1). The major materials used are corn, soya bean meal, fish meal, mineral sources, leaf pellet, corn gluten meal, vitamins and mineral premixes and amino acids in the production of feed. There are 43 compound feedmills in West and East Malaysia ranging from small to medium to highly complex operation, which produced 4.4 million metric tonnes of animal feed in the year 2002. However, there are also home-mixers with the production of 275,000 metric tonnes mainly for the swine sector.

**4. INFORMATION ON THE DBE GROUP (CONT'D)****Table 1: Raw materials used by the local feed industry**

Local		Used in	Imported	Commonly used
		percentage	small	
1.	Rice bran	**	Maize	**
2.	Wheat pollard	**	Soybean meal	**
3.	Wheat bran	**	Skimmed milk powder	**
4.	Limestone	**	Whey powder	
5.	Palm kernel cake	**	Fishmeal	**
6.	Palm oil sludge	**	Dicalcium Phosphate/ Monocalcium Phosphate	**
7.	Palm oil	**	Salt	
8.	Molasses	**	Meat and bone meal	**
9.	Rock salt	**	Rice bran	
10.	Soybean meal	*	Groundnut cake	
11.	Broken rice	**	Sesame cake	**
12.	Fish meal	*	Chinese leaf pellet	
13.	Tapioca	*	Wheat	
14.	Sago	*	Vitamins / Minerals	**
15.	Copra cake	**	Methionine	**
16.	Brewer grains	*	Lysine	**
17.	Rice husk	**	Blood meal	
18.	Cocoa meal	*	Feather meal	**
19.	Rubber seed meal	*	Rapeseed meal	**
20.	Oyster shells	**	Corn gluten meal	**

Note: \*\* commonly used by the industry, \* less availability

(Source: Dr. V Raghavan Article "Managing risks by the feed industry for safe food" Journal "22<sup>nd</sup> Malaysian Society of Animal Production Annual Conference", year 2000, page 27-48.)

**The Poultry Industry**

The poultry sub-sector contributes RM3.97 billion (poultry meat RM2.83 billion and eggs RM1.14 billion) or 75.12% of the ex-farm output value of the industry for year 2001 (Table 2). During the years 2000-2001, the poultry and egg industries increased substantially at a rate of 10.52% per annum (Table 2). As shown in Table 3, the production and consumption for poultry meat is the highest among the livestock products for year 1998 to 2001. The production of poultry meat has seen an increasing trend from 673 thousand metric tonne in 1998 to 766 thousand metric tonne in 2001. Similarly, the consumption for poultry meat has also been increasing from 594 thousand metric tonnes in 1998 to 644 thousand metric tonnes in 2001.

**Table 2: Ex-farm Value of Livestock products (RM) 2000-2001**

	2000		2001*	
	Value (RM million)	Contribution (%)	Value (RM million)	Contribution (%)
Poultry meat	2,544	52.87	2,827	53.49
Eggs	1,048	21.78	1,143	21.63
Pork	965	20.05	1,025	19.40
Beef	206	4.28	228	4.31
Mutton	14	0.29	16	0.30
Milk	32	0.67	43	0.81
Raw Hide & Skin	3	0.06	3	0.06
Total	4,812	100.00	5,285	100

\* Provisional data

Source: Department of Veterinary Services, Ministry of Agriculture, Malaysia.

(Extracted from <http://agrolink.moa.my/jph/dvs/statistics/> as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus) )

**4. INFORMATION ON THE DBE GROUP (CONT'D)****Table 3: Production and consumption of livestock products (1998-2001)**

Parameters		1998	1999	2000	2001*
Poultry	Production ('000 m.t.)	673.36	690.04	714.32	766.10
	Consumption ('000 m.t.)	594.56	594.56	635.11	644.56
	Per capita consumption (kg)^	29.76	29.48	29.96	28.52
	Self Sufficiency (%)^	117.69	120.21	117.78	124.24
Eggs	Production (million eggs)	6,922	6,710	6,642	6,952
	Consumption (million egg)	6,450	6,239	5,727	6,534
	Per capita consumption (count)^	316.54	293	270	293
	Self Sufficiency (%)^	108.76	109.4	118.70	108.31
Pork	Production (m.t.)	260,172	158,685	159,818	168,172
	Consumption (m.t.)	195,481	146,980	160,672	163,131
	Per capita consumption (kg)^	9.83	6.93	7.67	7.42
	Self Sufficiency (%)^	137.16	109.33	99.16	102.02
Beef	Production (m.t.)	16,708	18,300	17,501	19,159
	Consumption (m.t.)	90,484	92,553	110,593	112,769
	Per capita consumption (kg)^	4.70	4.68	5.50	5.30
	Self Sufficiency (%)^	19.43	20.96	16.69	17.97
Mutton	Production (m.t.)	738.7	893.6	888.0	976.1
	Consumption (m.t.)	12,555.	13,605.5	13,939	15,629.9
	Per capita consumption (kg)^	4	0.74	0.75	0.79
	Self Sufficiency (%)^	0.71	6.21	6.07	5.92
Milk	Production (million litre)	31.97	28.83	29.58	32.17
	Consumption (million litre)	640.94	754.22	1,050.16	1,097.96
	Per capita consumption (kg)^	35.22	40.76	56.62	55.29
	Self Sufficiency (%)^	4.46	3.31	2.38	2.56

Note: m.t.: metric tonnes

\* Provisional data

^ Peninsular Malaysia

Source: Department of Veterinary Services, Ministry of Agriculture, Malaysia.

(Extracted from <http://agrolink.moa.my/jph/dvs/statistics/> as at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus))**4.7.3 Industry Life Cycle and Sensitivity to Economic Downturn**

Due to the fact that poultry is a commodity item, it does not have any distinguishable life cycle. Poultry is one of the cheapest protein meat source available in the market and is widely consumed by various Malaysian races. Nonetheless, it is subject to seasonal peaks during festivities such as Hari Raya Puasa, Chinese New Year as well as Deepavali celebrations for which broiler farmers commonly increase their production of broilers in anticipation of large orders.

**4.7.4 Industry Players and Competition**

Presently, the DBE Group faces competition from various competitors, which include private and public listed companies.

The local feed manufacturing sector is characterised by the existence of hundreds of small-scale self-mixtures, with the exception of a few larger scale feed-millers. In addition to the existing competition, feed-millers may also face the threat of new entrants from players upstream (e.g. flour-millers) and downstream (e.g. poultry farmers) that see the synergistic advantages in moving into the feed-milling industry.

Despite the apparent competition in the industry DBE is involved in, the Company believes good quality products, good after-sales service and long-standing relationships with its suppliers and customers give the Group an edge over its competitors and position the Group favourably in the poultry industry.

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**4. INFORMATION ON THE DBE GROUP (CONT'D)**

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**4.7.5 Regulatory Body and Relevant Laws**

As mentioned in Section 3 (xvii), the Group's operations are subject to various legislations and regulations of the relevant authorities.

**4.8 Outlook and Future Prospects****(a) Outlook of the Malaysian Economy**

World growth and trade are expected to improve with most economic activities returning to normalcy. Business confidence and sentiment will, however, be cautiously optimistic against the backdrop of threats from terrorist attacks. World growth is still hinged on the modest performance of the US economy with the euro area still marked by relative weakness although Japan, the world's second largest economy, is showing signs of a more definitive path of sustained positive growth. Overall, indications point towards an improved outlook and higher optimism for 2004, despite the downside risks. Upbeat stock market activities across major bourses into the second half of 2003 should bolster optimism for a firmer global economic recovery. Thus, world economy is expected post a higher growth of 4% with the US, euro area and Japan registering growth of 3.6%, 2.3% and 1%, respectively in 2004. Together with most of the ASEAN economies gaining strength and with intra-regional trade expanding, the Malaysian economy is forecast to register a faster growth in 2004.

The strengthened macroeconomic fundamentals and a more broadly balanced economic structure with emerging new sources of growth will provide the foundation for sustained higher growth. Alongside pragmatic macroeconomic management and the pro-growth measures in place to support private sector initiatives, Budget 2004 will further enhance competitiveness and reinforce the resilience of the economy against likely destabilising external factors and garner higher economic growth for the country. The Malaysian economy is, therefore, targetted to achieve a stronger GDP growth of 5.5%-6% for 2004.

*(Source : Economic Report 2003/2004)*

**(b) Outlook of the Livestock Sector**

An important issue is the livestock industry need to prepare for the full implementation of Asean Free Trade Area ("**AFTA**") by year 2003 affecting livestock products, and by year 2010 for whole chicken, whole eggs, day-old-chicks and swine. The major elements are to reduce tariff to 0-5% and to remove all non-tariff barriers. Since almost all the livestock products carry 0% tariff for imports in Malaysia, the industry is already exposed to the liberalization trade. As noted in the Third National Agriculture Policy ("**NAP3**"), globalization and liberalization will open new opportunities for export of livestock production and facilitate competitive sourcing of raw materials. The country has the capability to specialize and be competitive in the production of certain livestock products, especially the poultry sub-sector. The sub-sector is expected to integrate and consolidate further to become more efficient and more productive in order to capitalize on the export market. To strengthen competitiveness and institutional support, the NAP3 suggests that the installation of effluent treatment system will be encouraged through the abolition of import tax for specialized on-farm treatment equipment, and suitable incentives for investment in automation will be provided and import tax on all specialized livestock farm and processing equipment will be abolished. In the area of strategic sourcing, it encourages overseas investments in meat and feed production.

**4. INFORMATION ON THE DBE GROUP (CONT'D)****(c) Outlook of the Feed Sub-sector**

The growth of the food industry has slowed and many feedmillers are careful ever since their experience during the the economic crisis in 1997 and the pig Nipah virus outbreak during which time heavy losses were incurred. However, the industry is still growing and facing increasing problems in its partnership with the livestock, poultry or aqua farmers to produce the required food for Malaysia's rising population. It had been projected that the feed industry and industry compound feed production would increase with projected proportionate increased demand for food. Thus, the market potential of prepared feeds for the livestock sector is tremendous.

Malaysian feedmillers are particularly sensitive to the very high costs of raw materials, leaving little margin for other costs, such as labour and overheads as well as profits. There is no price control over raw materials. Several measures are therefore required immediately to find solution of reduce imported feed ingredients which totals about 30% of the total food bill or RM10 billion a year. This is of paramount importance to sustaining a healthy feed and food industry. It is expected that the increased demand for feed will be geared mainly to the poultry sectors (broilers) especially in integrated projects.

**Projected Livestock Feed Production (1996-2008)**

Feed	1990	1992	1994	1996	1998	2000	2004	2006	2008
Poultry	2,030	2,300	2,530	2,720	2,860	2,980	3,100	3,224	3,353
Pig	1,020	1,100	1,180	1,240	1,300	1,300	1,300	1,300	1,300
Total	3,050	3,400	3,710	3,960	4,160	4,340	4,400	4,524	4,653
Increment Rate/year	-	11.47	9.11	6.7	5.0	4.3	1.4	2.8	2.8

Note: '000 metric tonnes

(Source: Dr. V Raghavan, Article "Feed Industry in Malaysia", Journal "Malaysian Livestock & Veterinary Industries Directory 2001/2002")

**(d) Outlook of the Poultry Sub-sector**

Poultry is the single most important livestock industry in Malaysia. In the past two decades, production has increased substantially. Malaysia now produces 738 thousand metric tonnes of poultry meat and is placed 13<sup>th</sup> in the world ranking, while it ranked 22 and 14 between 1998 – 2000 respectively.

The continually changing landscape of the broiler industry could spur Malaysia, taking into consideration it's ranking in world production, to be an ethical player not only in Asia but also in the world. Producers must take advantage of the economic influx and face the new world order of World Trade Organization and AFTA.

**Forecast Broiler Chicken Production and Consumption 2003-2005**

	2003	2004	2005
Production (mt)	859.82	879.59	899.82
Consumption (mt)	697.47	714.91	732.78
Self Sufficiency (%)	123.3	123.00	122.80

Note: m.t.: metric tonnes

(Source: Dr. V Raghavan, Article "Concentration and Integration", Journal "World Poultry-Elsevier" Volume 18 No.8 year 2002)

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

Poultry sub-sector continued to be main source of growth of the livestock industry during the 7MP. The industry registered an 8.8% growth per annum during the 7MP, with a production increased from 687,000 tonnes in 1995 to 1,000,000 tonnes in 2000. The poultry sub-sector accounted for 67.1% of the total livestock produce in 2000.

During the 8MP, poultry production is projected to grow by 4.8% per annum from 1,000,000 tonnes in 2000 to 1.3 million tonnes in 2005.

To support the expanding local and exports markets of livestock products, particularly poultry products, a total of RM127.5 million has been allocated for the livestock sub-sector, representing 1.6% of the total allocation to the various agencies involved in agricultural development during the 8MP.

Due to the important contribution to the national economy, the Government of Malaysia has taken steps to ensure adequate supply of poultry and eggs for the domestic as well as export markets.

In addition, the Malaysian government has undertaken measures to promote and develop Malaysia as an International Halal Food Hub, including local and international marketing of branded halal livestock and the promotion of Malaysia Halal Standard for livestock and poultry products. In line with this, the DBE Group is carrying a 'halal' certificate, issued by Majlis Agama Islam Selangor and renewable annually, to cater for various types of consumers and have bigger markets for its products.

#### 4.9 Prospect and Future Plans of the DBE Group

The viability of the DBE Group is summarised as follows:-

##### (a) Heading towards fully integrated Broiler Operator

DBE Group, one of the major broiler producers in the state of Perak, is heading towards the full integration in a bid to increase competitiveness amid the impending trade liberalisation. Sooner or later, Malaysia would have to gradually reduce tariffs for overseas goods and services as it is bound to international trade accords such as the World Trade Organisation ("WTO") and AFTA. For DBE and other local broiler producers, the trade liberalisation and globalisation means a more competitive competition locally and internationally.

To enhance its competitive edge, DBE aims to become a fully integrated broiler producer in order to control production, cost and quality of its products. The DBE Group, which was founded in 1986 by the Ding brothers, namely Ding Choon Yung and Dato' Ding Chong Chow, has now diversified into breeding, hatchery, processing and wholesaling/retail and feedmill operations.

In 1991, DBE Breeding was formed to take over the Group's breeding farms. DBE Hatchery and DBE Food Processing were set up in Ipoh to run the Groups' hatchery and processing plant respectively. DBE Food Processing has relocated to Selayang, Selangor as at August 2003. DBE Poultry was founded in 1995 and in 1996, DBE Poultry took over the broiler farming operations of the Group. In 1995, DBE Marketing was established as the marketing arm of the Group. In 2000, the Group established its wholesale and retail outlets to directly market its products to consumers. The outlets are run by DBE Gurney Chicken.

The Group became an integrated broiler producer when its in-house feedmill on a 4.63 acre plot in Lumut Port Industrial Area, Perak commenced its operations in July 2002. The feedmill is run by DBE Poultry.

Expansion into the upstream feedmill operations will ensure the quality of feeds as well as enable the reduction in costs as the feedmill operations and supply of feeds are within the control of the DBE Group. For the financial period ended 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), the raw materials and consumables costs accounted for approximately 95.2% of the production cost.



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**4. INFORMATION ON THE DBE GROUP (CONT'D)**

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**(b) Strategic Location**

The Group's breeding, hatchery and farming facilities are located in the district of Manjung, Perak. The Group has six (6) breeding farms, all of which are in operation in the district of Manjung, Perak. All the Group's breeding farms stock about 88,000 breeders. The hatchery is situated next to the breeding farms. An incubator housing six (6) sets of setters and hatchers are used to hatch about 1,000,000 day-old-chicks per month.

Its processing plant is located in Taman Prima Selayang, Selangor whilst the Group presently has one(1) wholesale/retail outlet located in Seri Manjung, Perak, two(2) in Klang Valley and one (1) in Bukit Mertajam, Penang.

The Group's in-house feedmill, located in the Lumut Port Industrial Area, Perak, commenced operation in July 2002. The Lumut Port Industrial Area is adjacent to the Lumut Port and located near the major road linking Ipoh-Lumut.

**(c) Automated Processing Plant and Upgraded Operations**

While cost-saving is important to maintain profits, one of the major factors to sustain growth and competitiveness is the quality of products. To ensure that the quality is maintained, the operations of the DBE Group have been upgraded on a continuous basis. Since the early 1990s, major overhauls have been undertaken in the breeding, farming, processing and marketing operations.

In late 1990s, all the breeding farms, which previously rear the breeders in slated houses, were completely renovated and rebuilt with closed houses equipped with the evaporative cooling system as well as automatic feeders and drinkers. The equipment was sourced from Big Dutchman and GSI-Cumberland, manufacturers of poultry farming equipment from the Netherlands and the USA respectively. The newly renovated closed house system has increased production by approximately 20% as a well ventilated farm could cater to higher density of chickens. It is a common practice of poultry farmers to provide 3 ft<sup>2</sup> per breeder for open house farms, while providing 2.4 ft<sup>2</sup> per breeder in a closed house system.

The Group's hatchery operations are equipped with an incubator housing six sets of setters and hatchers as well as automatic scanner for eggs inspection. This equipment was acquired in 1992 from the Netherlands, which allows the temperature, humidity and ventilation to be carefully monitored to increase hatchability and to achieve maximum number of good quality day-old chicks.

In late 1980s, the broiler farms, which previously stocked the birds on the ground, were replaced with slated flooring houses. The slated flooring houses enabled the increase in production cycles from five cycles per year to six cycles per year. To improve further, the Group is also moving towards closed house system for all its broiler farms to increase production and improve the quality of products.

As at 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), the Group has thirteen (13) broiler houses with closed house system at Gelung Pepuyu, Perak and twenty (20) broiler houses with closed house system at Changkat Kruing, Perak. The Group has targeted to have an additional ten (10) broiler houses with closed house system by first quarter of 2004 upon completion of the construction of the additional broiler houses with closed house system at Gelung Pepuyu and Changkat Kruing, Perak. It is a common practice by poultry farmers to provide 1 ~ 1.2 ft<sup>2</sup> per broiler for open house farms, while providing 0.8 ft<sup>2</sup> per broiler in closed house systems.

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**4. INFORMATION ON THE DBE GROUP (CONT'D)**

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In 2003, the Group's processing plant relocated its operations from Ipoh, Perak to Selayang, Selangor. The processing plant houses a semi-automatic processing machinery, which involve stunning, scalding, feather plucking, spiral chilling and cleaning. The semi-automatic processing plant enables the Group to increase efficiency and enhance the plant capacity that are now handled automatically under strict hygiene conditions and requirements.

A fully computerised feed production machinery designed and supplied by Jiangsu Muyang group from China at RM6.6 million was installed at the Group's feedmill in Lumut Port Industrial Area, Perak.

(d) **Ownership and Management**

DBE was founded in 1986 as a broiler farm operator by the Ding brothers, namely Ding Choon Yung and Dato' Ding Chong Chow under the name of Ding Brothers Enterprise. Prior to the establishment of Ding Brothers Enterprise, both the brothers have extensive experience in poultry farming since 1970s. Presently, the DBE Group is managed by Ding Seng Huat, the Group Managing Director and the son of Ding Choon Yung. Ding Seng Huat has more than thirteen (13) years of experience in poultry industry since joining the Group in 1990. He also has held various executive positions within the Group since 1991 before appointed to his present position as the Group Managing Director in 2001.

Ding Seng Huat is supported by an experienced, committed and dynamic management team with some of its key personnel having been in the poultry industry for more than thirteen (13) years since 1990. Ding Seng Huat is also actively involved in the Federation of Livestock Farmers' Associations of Malaysia.

The success of the Group's business was achieved through the deliberate and careful planning of the Directors with the support of the Group's management team.

(e) **Expansion Capabilities**

In its early years, the DBE Group was merely supplying broilers in the district of Manjung, Perak. Throughout the years, the Company has expanded its operations and moved into the regional markets. Beginning early 1990s, the management decided to streamline the operations with the setting up of a private limited company. DBE Breeding was established on 19 March 1991 to take over the breeding farms of the Group. Subsequently, the company's divisions were expanded to include hatchery, poultry, food processing and marketing divisions. In line with the growth in the business, all the divisions were subsequently transformed into a separate private entity to undertake all the activities under the Group.

Presently, the Group has one(1) wholesale/retail outlets located in Seri Manjung, Perak, two(2) in Klang Valley and one(1) in Bukit Mertajam, Penang. Besides selling chickens and poultry-related products which are mainly produced by the DBE Group, the outlets also offer various kinds of meats, dressing and processed products such as sausages, meatballs and other groceries, which are sourced from other suppliers.

Presently, most of the Group's feedmill productions are consumed internally. The feedmill is running on one production line and producing 15 metric tonnes per hour, which is expandable to 30 metric tonnes per hour with an additional production line.

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

(f) **Contribution to Economic Growth**

The DBE Group will contribute directly and indirectly to Malaysia's economic growth in the following ways:-

- (i) Being one of the major players in the poultry industry in Perak, the DBE Group contributes positively to the development of the industry with the Group's greater emphasis on the quality of its poultry and poultry-related products. The continuous support and feedback given by the Group to most of its customers, particularly the contract farmers, as well as close coordination with the Department of Veterinary Services on disease control would promote healthy farm management and improve quality of feeds.
- (ii) Supporting the Government's call to spearhead the development of the food industry, which has been identified by the Government as one of the key industries. This is also in line with the Government's effort to promote Malaysia as an International Halal Food Hub.
- (iii) By selling direct to consumers from its wholesale/retail outlets at a reasonable price, consumers would have greater buying power, thus making poultry meat to be a protein source that can be easily obtained by consumers of all income classes.

(g) **Major Customers**

DBE has established long-term relationship with most of the major customers due to, among others, their efficiency and promptness in meeting the requirements of the customers. This has resulted in a high number of repeat sales with the wholesale customers despite the lack of long-term contracts with most of the customers.

The Group's broilers are mainly supplied to its processing unit and other buyers. 27.38% of the Group's broiler sales in 2002 are supplied to the Group's processing unit. The customers for the Group's processed fresh and frozen poultry products are mainly wholesale distributors, restaurant operators and consumers. 36.78% of the Group's processed fresh and frozen products are sold and supplied to the wholesaling units of the Group, namely DBE Gurney Chicken, whilst the remaining 63.22% are sold to third parties.

Amongst the long term major customers of the DBE Group are as follows:-

Major Customers	Services Provided	Aggregate Total Revenue from 1998-15 December 2003 RM'000	Lengths of Relationship (Years)
HPC Poultry Enterprise	Supply of live chicken	30,854	7
Perniagaan Foo Soon	Supply of live chicken	14,974	5
Sentosa Sdn Bhd	Supply of live chicken	12,540	5
Wilayah Frozen Food & Processing Sdn bhd	Supply of live chicken	10,725	4
Syarikat Yuzima	Supply of live chicken	8,422	7
Hin Yek Enterprise	Supply of live chicken	8,982	5
Ayam Kinta (Mansor Bin Johor)	Supply of processed chicken, beef and frozen food.	5,924	5
Essence Base Sdn Bhd	Supply of processed chicken	5,514	5
Resort World Bhd	Supply of processed chicken	5,476	2
Xin Fa Xing	Supply of live chicken	4,335	3

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

The Group adopts various measures to minimise risk of dependency on a few major customers/wholesalers by downstream expansion into wholesale/retail operations to expand its sale directly to consumers.

There is no one single customer for 2002 where sales are more than 10% of the Group's sales. The highest single customer in 2002 was HPC Poultry Enterprise with a total sale of RM5,791,268.01 or 6.6% of the Group's total sales.

(h) **Major Suppliers of Breeders, Feeds and Raw Materials for Feeds**

The Group adopts various measures to minimise risk of dependency on a few major suppliers by:-

- (i) sourcing its supply of raw materials for feeds and breeder day-old chicks from more than one (1) supplier;
- (ii) establishing a wide network of suppliers through market selection and maintain long term relationships with its major suppliers; and
- (iii) upstream expansion into feedmill operations to reduce dependency on supply of feeds and to improve the quality of feeds.

Nonetheless, the Group has established a long-term relationship with most of its major suppliers over the past fifteen (15) years as shown in the table below.

The list of major suppliers of the Group and the lengths of relationship are as follows:-

Major Suppliers of Feeds, Breeders and Broilers Day-Old Chicks	Products/Services Provided to DBE Group	Aggregate Total Contract sum from year 1998 to 15 December 2003 RM'000	Length of Relationship (Years)
Cargill Feed Sdn. Bhd.	Broiler feed and breeder feed	21,800	17
JBFM Feedmill Sdn. Bhd.	Broiler feed and breeder feed	18,100	17
Gold Coin Feedmills Sdn. Bhd	Broiler feed and breeder feed	17,192	12
Pin-Wee Feedmills Sdn. Bhd	Broiler feed	13,670	4
Charoen Pokphand Feedmills (Butterworth) Sdn. Bhd.	Broiler feed	12,780	4
Yeam Heng Trading Co.	Pharmaceutical products	4,319	17
Kean Leong Trading Co.	Broiler day-old chicks	3,270	6
Citumanna farm Enterprise	Vaccination for day old chicks	2,511	2
Avian Farm Sdn Bhd	Breeder day-old chicks	1,812	12
AA Ross Malaysia Sdn Bhd (Formerly known as Abor Acres (1991) Sdn Bhd)	Breeder day-old chicks	1,456	3

#### 4. INFORMATION ON THE DBE GROUP (CONT'D)

With the commencement of the DBE Group's own feedmills since July 2002, the Group has reduced its purchase of feeds from the feeds suppliers. However, the Group increases its purchases of raw material for its feedmill operations from the raw material suppliers as follows:-

Major Suppliers of Raw Material For Feeds	Products/Services Provided to DBE Group	Aggregate Total Contract sum from year 1998 to 15 December 2003 RM'000	Length of Relationship (Years)
Ban Seng Guan Sdn Bhd	Corn, soy bean meal	14,494	2
Gladron Chemicals Sdn Bhd	Other additives	1,187	2
Hoe Seng Chan Co Sdn Bhd	Corn, soy bean meal, other additives	3,367	2
QL Feedingstuffs Sdn Bhd	Corn, soy bean meal, other additives	5,330	2
Soon Soon Oilmills Sdn Bhd	Corn, soy bean meal, other additives	7,702	2

There is only one supplier that has exceeded the 10% of overall Group purchases. The highest single supplier in 2002 was Pin Wee Feedmills Sdn Bhd with a total purchase of RM10,453,527.90 or 15.8% of total purchases. The other major supplier in FY2002 was Bang Seng Guan with purchase amounting to RM4,850,309.19 or 7.3% of the Group's total purchases.

#### Future Plans of the DBE Group

The future plans of the DBE Group are summarised as follows:-

##### (i) *Expansion of feedmill operations*

The Group became an integrated broiler producer when its in-house feedmill on a 4.63-acre plot in Lumut Port Industrial Area, Perak commenced its operations in July 2002. The feedmill is operated by DBE Poultry.

Expansion into the upstream feedmill operations will ensure the quality of feeds as well as enable the reduction in costs as the feedmill operations and supply of feeds are within the control of the DBE Group. For the financial period ended 15 December 2003 (being the latest practicable date prior to the printing of this Prospectus), the raw materials and consumables costs accounted for approximately 95.2% of the production cost.

Presently, most of the Group's feedmill productions are consumed internally. The feedmill is running on one production line and producing 15 metric tonnes per hour, which is expandable to 30 metric tonnes per hour with an additional production line. In the future, the Group strives to further diversify its product range. The Group has identified opportunities in the aquaculture industry and expects the production of feed to cater for this industry that will contribute to the Group's income.

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**4. INFORMATION ON THE DBE GROUP (CONT'D)**

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**(ii) Expansion of wholesale/retail outlets**

Presently, the Group has one(1) wholesale/retail outlets located in Seri Manjung, Perak, two(2) in Klang Valley and one(1) in Bukit Mertajam, Penang. Besides selling chickens and poultry-related products which are mainly produced by the DBE Group, the outlets also offer various kinds of meats, dressing and processed products such as sausages, meatballs and other groceries, which are sourced from other suppliers. By the first quarter 2004, the Group aims to set up another one (1) outlet each in Selangor and Perak respectively.

**(iii) Expansion of processing operations**

The Group is also looking into the possibility of diversification of its product range to be able to produce value-added products such as nuggets, burgers, fried chickens and other frozen food of export quality.

**(iv) Upgrade to Closed-House System**

The breeding farms have also been completely renovated and rebuilt with closed houses equipped with the evaporative cooling system as well as automatic feeders and drinkers. The Group is also moving towards closed house system for all its broiler farms to replace the existing slated flooring houses.

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