

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE

This Prospectus is dated 16 January 2004. A copy of this Prospectus has been registered with the SC and lodged with the Registrar of Companies, both of whom take no responsibility for its contents.

Approvals have been obtained from the SC in respect of the Public Issue and Offer for Sale on 19 September 2003 and 8 December 2003. The approval from the SC shall not be taken to indicate that the SC recommends the initial public offering and /or the flotation of ARB on the MSEB. Prospective investors should rely on their own evaluation to assess the merits and risks of any investments in the Company.

**Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the MSEB has prescribed ARB as a prescribed security. In consequence thereof, the shares offered through this Prospectus will be deposited directly with MCD and any dealings in these ARB Shares will be carried out in accordance with the aforesaid Act and the Rules of the MCD.**

An application will be made to the MSEB within three (3) market days from the date of this Prospectus for admission to the Official List of the Second Board of the MSEB and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up ordinary shares of RM1.00 each in ARB, including the Public Issue Shares and Offer Shares, which are the subject of this Prospectus. These ordinary shares will be admitted to the Official List of Second Board of the MSEB and official quotation will commence after the receipt of confirmation from MCD that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptance of the applications will be conditional upon permission being granted by the MSEB to deal in and for the quotation of the entire enlarged issued and fully paid-up ordinary shares of ARB on the Second Board of the MSEB. Accordingly, monies paid in respect of any application accepted from the applications will be returned without interest if the said permission for listing is not granted within six (6) weeks from the date of issue of this Prospectus or such longer period as may be specified by the SC, provided that the Company is notified by or on behalf of the MSEB within the aforesaid timeframe.

Pursuant to the Listing Requirements, at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each at the point of listing. **In the event that the above requirement is not met pursuant to the Public Issue and Offer for Sale, the Company may not be allowed to proceed with its listing on the Second Board of the MSEB. In the event thereof, monies paid in respect of all applications will be returned without interest if the said permission is not granted.**

**Only an applicant who has a CDS account can make an application by way of an application form.** The applicant shall furnish his/her CDS account number in the space provided in the Application Form and he/she shall be deemed to have authorised MCD to disclose information pertaining to the CDS account to MIDFCCS or the Company. Where an applicant does not presently have a CDS account, he/she should open a CDS account at an ADA prior to making an application for the Public Issue Shares. If a successful applicant fails to state his/her CDS account number, MIDFCCS under the instruction of the Company will reject the application. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has CDS account can make an Electronic Share Application.

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

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

The distribution of this Prospectus is subject to Malaysian law and the Company takes no responsibility for the distribution of this Prospectus outside Malaysia. Persons into whose possession of this Prospectus may come are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an offer to sell or invitation of an offer to buy any Public Issue Shares and/or Offer Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

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

**If you are in doubt of any information contained in this Prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.**

### 2.1 Opening And Closing Of Application

The application for the Public Issue Shares and Offer Shares will open at 10.00 a.m. on 16 January 2004 and will remain open until 5.00 p.m. on 28 January 2004 or for such further period as the Directors of ARB and/or Offeror together with the Managing Underwriter in their absolute discretion may decide. Should the closing date of the application date be extended, the dates for balloting and allotment of the Public Issue Shares and Offer Shares, and the listing of and quotation for the entire enlarged issued and paid-up share capital of ARB on the Second Board of the MSEB would be extended accordingly. Any change to the closing date of the application will be published in a widely circulated daily Bahasa Malaysia newspaper and English newspaper within Malaysia.

The tentative dates of special events are as follows:-

Opening of the Public Issue	:	16 January 2004
Closing of the Public Issue	:	28 January 2004
Tentative balloting date	:	30 January 2004
Tentative despatch of notices of allotment date	:	10 February 2004
Tentative listing date	:	13 February 2004

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

### 2.2 Share Capital

	RM
<i>Authorised</i>	
75,000,000 ordinary shares of RM1.00 each	75,000,000
25,000,000 ICPS of RM1.00 each	25,000,000
<i>Issued and fully paid-up</i>	
<b>(i) Ordinary shares</b>	
Existing 42,600,000 ordinary shares of RM1.00 each	42,600,000
<i>To be issued pursuant to :</i>	
Public Issue of 8,500,000 new ordinary shares of RM1.00 each	8,500,000
Enlarged issued and paid-up share capital upon Listing	<u>51,100,000</u>
<i>To be issued pursuant to :</i>	
Full conversion of ICPS	10,000,000
Enlarged issued and paid-up share capital after full conversion of ICPS	<u>61,100,000</u>
Offer For Sale of 1,554,000 ordinary shares of RM1.00 each	<u>1,554,000</u>
<b>(ii) ICPS</b>	
Existing 12,000,000 ICPS of RM1.00 each	<u>12,000,000</u>

The issue/offer price of RM1.20 per ordinary share is payable in full upon application.

There are two classes of shares in the Company, namely, ordinary shares of RM1.00 each and ICPS of RM1.00 each, all of which rank *pari passu* with one another within the same class. The Public Issue Shares and Offer Shares will rank *pari passu* in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of this Prospectus.

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

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held.

The holders of ICPS shall be entitled to the following rights, privileges and preference as provided in its Articles of Association:-

- (a) The ICPS shall have a tenure of two (2) years, commencing from the date the same are issued to the holder ("Issue Date").

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**2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**

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- (b) The holder of ICPS shall have the right in the event of any liquidation, dissolution of the winding up of the Company to have the surplus assets available for distribution among the members applied first in payment of the capital paid on ICPS and all arrears of dividends declared and remaining unpaid thereon and thereafter to participate rateably with the holders of shares in the capital of the Company in the residue, if any, of such surplus assets as shall remain after paying off the capital paid up on such shares.
- (c) Each holder of ICPS shall have the right ("Conversion Right") at any time after the first anniversary of the Issue Date to convert fifty percent (50%) of the ICPS and the remaining fifty percent (50%) upon the expiry of second anniversary of the Issue Date into fully paid new shares of RM1.00 each in the Company at RM1.20 ("the Conversion Price").
- (d) The Conversion Right shall be exercisable on or at any time after the 1<sup>st</sup> anniversary by the holder of the ICPS completing a notice ("Conversion Notice") stating in such notice the number of ICPS to be converted, the date of conversion, which shall be no later than seven (7) days from the date of the Conversion Notice ("Conversion Date"), and the Conversion Price and delivering the same to the Company together with the share certificates in respect of such ICPS or such other documents or evidence, if any, as the directors may reasonably require to prove the title and claim or the person exercising such right (or, if such certificates have been lost or destroyed, such evidence of title and such indemnity as the directors may reasonably require).
- (e) The ICPS are not transferable.
- (f) The ICPS shall rank pari passu in all respect with one another.

The new shares issued pursuant to the exercise of the Conversion Rights will, with effect from the relevant Conversion Date, be entitled for any dividends, rights, allotments or other distributions in relation to any dividends, rights, allotments and other distributions, the date on which holders of shares must be registered in order to participate in such dividends, rights, allotments or other distribution, which shall fall on or after the relevant Conversion Date. Such new shares will however be not entitled for any dividends or other distributions declared or to be declared in respect of a financial year of the Company prior to the financial year in which the relevant ICPS are converted and will not rank for any distributions, declared or to be declared by the Company, the entitlement date of which precedes the relevant Conversion Date. Subject as aforesaid, such new shares will rank pari passu in all respects with the then existing shares of the Company.

**2.3 Particulars of the Public Issue and Offer For Sale**

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

**(i) Public Issue**

**(a) Eligible Directors and Employees of the ARB Group**

1,000,000 of the Public Issue Shares have been reserved for the Executive Directors and eligible employees of the ARB Group.

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A brief description on the allocation of the pink forms as approved by the Board of Directors of the Company is as follows:-

<b>Category</b>	<b>Number of Personnel</b>	<b>Allocation per Person</b>	<b>Pink Form Allocation</b>
Executive Directors	4	50,000	200,000
Senior Executive	9	40,000	360,000
Executive	6	20,000	120,000
Technical and Supervisory Staff	17	10,000	170,000
Clerical	6	8,000	48,000
Operational Staff	17	6,000	102,000
<b>Total</b>	<b>59</b>		<b>1,000,000</b>

Only executive directors of ARB are eligible for the allocation while the criteria of allocation to the eligible employees is based on the job grade and performance.

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

6,000,000 of the Public Issue Shares have been reserved to Bumiputera investors approved by MITI.

**(c) Malaysian Public**

300,000 of the Public Issue Shares will be made available for application by Malaysian Public of which at least 30% is to be set aside for Bumiputera individuals, companies, societies, co-operatives and institutions.

**(d) Private Placement**

1,200,000 of the Public Issue Shares have been reserved for private placement to identified investors of which at least 30% is to be set aside for Bumiputera investors.

The Public Issue Shares under paragraph (a) and (c) have been fully underwritten. In the event that any of the Public Issue Shares under paragraph (a) above are not taken up by the eligible Directors and employees of ARB Group, such Public Issue Shares will be made available for application by the Malaysian Public. The 1,200,000 Public Issue Shares which have been reserved for private placement will not be underwritten as the places will be procured prior to the issuance of this Prospectus.

There is no minimum subscription to be raised from the Public Issue in order to satisfy the objectives of the public offering.

**(ii) Offer for Sale**

The 1,554,000 Offer Shares have been reserved for Bumiputera investors approved by the MITI.

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

### 2.4 Basis of Arriving at the Issue/Offer Price

The Issue/Offer Price of RM1.20 per ordinary share was determined and agreed upon by the Company, Offeror and Aseambankers, as the Adviser, Managing Underwriter and Placement Agent after taking into consideration, *inter alia*, the following factors: -

- (i) the Group's quantitative and qualitative factors as outlined in Section 4 and 9 of this Prospectus;
- (ii) the future plans and prospects of the timber industry in which the Group operates in, as outlined in Section 4.10 of this Prospectus;
- (iii) the Group's consolidated net PE Multiple of 5.44 times and net EPS of 22.04 sen and fully diluted net PE Multiple of 6.51 and fully diluted net EPS of 18.42 for the financial year ending 31 December 2004 as set out in Section 9.6 of this Prospectus;
- (iv) the proforma Group NTA per share of RM1.62 and RM1.36 as at 31 August 2003 after the Public Issue/Offer for Sale and full conversion of ICPS respectively as set out in Section 9.11 of this Prospectus; and
- (v) the forecast net dividend yield of 4.17% for the financial year ending 31 December 2004 as set out in Section 9.10 of this Prospectus.

### 2.5 Purposes of the Public Issue and Offer For Sale

The purposes of the Public Issue and Offer For Sale are as follows:

- (i) to enable ARB to gain access to the capital market to raise fund for future expansion and continued growth of the ARB Group;
- (ii) to provide additional funds to meet the present and future working capital requirement of the ARB Group;
- (iii) to provide an opportunity for the eligible Directors and employees of the Group as well as the Malaysian investing public to participate in the equity and growth of ARB; and
- (iv) to obtain the listing of and quotation for ARB shares on the Second Board of the MSEB.

### 2.6 Proposed Utilisation of Proceeds

The gross proceeds of RM10,200,000 arising from the Public Issue will be utilised by the Group in the following manner set out below.

	Details of Utilisation	Notes	Amount RM' 000
(i)	Repayment of bank borrowings	a	5,000
(ii)	Working capital	b	3,600
(iii)	Estimated listing expenses	c	1,600
	<b>Total</b>		<b>10,200</b>

**2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**

Notes:-

**(a) Repayment of Bank Borrowings**

The Company proposes to utilise RM5.0 million to repay part of the existing borrowings of AHSB details of which are as follows:-

<i>Name of Borrower</i>	<i>Lender</i>	<i>Facility</i>	<i>Limit of Facility</i>	<i>Amount Outstanding as at 31 August 2003</i>	<i>Purpose of Borrowing</i>
AHSB	Bank Pertanian Malaysia Berhad	Term Loan	RM25.0 million	RM22.732 million	Refinancing

The repayment is expected to contribute a total interest savings of approximately RM415,000 based on the interest rate of approximately 8.3% per annum.

**(b) Working Capital**

RM3.6 million of the gross proceeds will be reserved as general working capital for the purchase of raw materials and operating expenses and will result in interest savings as compared to having to obtain working capital lines from various financial institutions.

**(c) Estimated Listing Expenses**

The estimated RM1.6 million in respect of expenses and fees incidental to the Listing shall be borne by the Company. Out of RM1.6 million, approximately RM600,000 is provided for professional services rendered by professional advisers and experts.

Any remaining amount unutilised from the above-stated purposes will be used for working capital.

Save for working capital which will be utilised as and when the need arises, all the proceeds from the Public Issue are expected to be fully utilised within six (6) months from the date of listing.

**2.7 Proceeds from the Offer For Sale**

The gross proceeds from the Offer For Sale of approximately RM1.865 million shall accrue to the Offeror and no part of the proceeds of the Offer For Sale is receivable by ARB. The Offeror shall bear brokerage and expenses relating to the Offer For Sale.

**2.8 Underwriting Commission, Placement Fees and Brokerage**

The Managing Underwriter and Underwriter mentioned earlier in this Prospectus have agreed to underwrite the 1,300,000 Public Issue Shares, which are made available to the eligible Directors, employees of ARB Group and Malaysian public. Underwriting commission relating to the Public Issue to be underwritten is payable by the Company at the rate of 2% of the Issue Price of RM1.20 per Public Issue Share.

Placement fees shall be payable by the Company to the Placement Agent at the rate of up to 2% of the Issue Price of RM1.20 per Public Issue Share in respect of the 1,200,000 Public Issue Share to be placed with Malaysian private and/or institutional investors.

Brokerage relating to the Public Issue is payable by the Company at the rate of 1.0% of the Issue Price of RM1.20 per Public Issue Share in respect of successful applications bearing the stamp of Aseambankers, a participating organisations of the MSEB, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or MIDFCCS.

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2. **DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**

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The Company shall bear all expenses such as brokerage, underwriting commission and placement fees relating to the Public Issue together with all other expenses and fees incidental to the listing of and quotation for the entire issued and paid-up capital of ARB on the Second Board of the MSEB estimated at RM1.6 million.

The Offeror shall bear brokerage and expenses relating to the Offer For Sale.

**2.9 Salient Details of Underwriting Agreement**

The Company has entered into an underwriting agreement dated 7 January 2004 with Aseambankers as the Managing Underwriter and the Underwriter detailed in this Prospectus for the underwriting of 1,300,000 Public Issue Shares for an underwriting commission of 2% of the Issue Price of RM1.20 per share.

The salient terms of the Underwriting Agreement are summarised below.

***Covenants And Undertakings By The Company***

In consideration of the Underwriters agreeing, at the request of the Company, to underwrite the Underwritten Shares, the Company covenants and undertakes to the Underwriters as follows:-

- (a) **Prospectus:** the Prospectus shall be in such form and substance satisfactory and acceptable to and approved by the SC and the MSEB and shall not contain any untrue statement or omit to state a material fact required or necessary to be stated therein to make the statements therein true, accurate and not misleading, and the Company shall promptly furnish to the Underwriters as many copies of the Prospectus as the Underwriters shall reasonably request;
- (b) **Revision of Prospectus:** if any event shall occur or condition exist as a result of which it is necessary, in the opinion of the Company, after consultation with the Underwriters, to further amend or supplement the Prospectus in order that the Prospectus will not include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein true, accurate and not misleading in light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary to amend or supplement the Prospectus in order to comply with the requirements of the Securities Commission Act 1993 or such relevant guidelines issued by the relevant regulatory authorities, prompt notice shall be given without any delay, and confirmed in writing, to the Underwriters, and the Company shall prepare and file or register as soon as practicable such amendment or supplement to the Prospectus as may be necessary to correct such misstatement or omission or to make the Prospectus comply with such requirements and the Company shall furnish to the Underwriters, without charge, such number of copies of such amendment or supplement as the Underwriters may reasonably request. In this respect, the filing of any such amendment or supplement shall not constitute a waiver of any of the provisions set out in this Agreement;
- (c) **Distribution of Prospectus:** the Company shall not distribute the Prospectus or any relevant application forms for the Issue Shares or other material in any country or jurisdiction other than Malaysia;



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**2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**

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- (d) **Compliance with Companies Act and the Securities Commission Act 1993 of Malaysia:** the Company shall comply with and procure that its directors comply with all relevant requirements and provisions of the Companies Act 1965 and the Securities Commission Act 1993 in relation to the Public Issue and the Prospectus;
- (e) **Consents and Approvals:** all authorisations, approvals, consents or other orders required by the Company under the laws of Malaysia not already obtained by the Company for or in connection with the Public Issue shall be obtained and be in force and all other actions shall be taken by the Company to comply with all legal and other requirements necessary to ensure that the Public Issue shall not infringe any existing laws or terms of any such authorizations, approvals, consents or orders;
- (f) **Listing on MSEC and Compliance:** the Company shall make the relevant application to the MSEC and obtain the approval of MSEC for the Public Issue and the listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of MSEC and shall, at all times, maintain the said listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of MSEC, and shall comply with all conditions imposed by the SC and MSEC, if any, in respect thereof and/or in respect of the Public Issue;
- (g) **Public Issue:** the Public Issue shall be on the terms and conditions of the Prospectus and the Company shall apply the proceeds of the Issue Shares solely for the purposes set out in the letter of approval of SC dated 19 September 2003;
- (h) **Undertaking to Inform:** the Company shall promptly and without any delay notify the Underwriters of and provide the Underwriters with any facts, information, situations or circumstances which the Underwriters may reasonably need or require in relation to the Public Issue or which the Company believes may have or is likely to have a material adverse effect on the success of the Public Issue or on the sale of any Underwritten Shares and in particular and without prejudice to the generality of the foregoing, of any material adverse effect on the financial condition or business or operations of the Company, or on the prospects or future financial condition or business or operations of the Company or which affect any of the aforesaid representations or warranties at any time prior to the Closing Date or the Extended Closing Date, as the case may be, and take such steps as may be reasonably requested by the Underwriters to remedy and/or publicise the same;
- (i) **Closing Date:** the Closing Date unless extended in accordance with the provisions of this Agreement, shall not be later than six (6) Market Days following the date of the Prospectus. In this respect, any extension to the Closing Date shall require the approval of the Managing Underwriter, who may, in their sole and absolute discretion, agree to the same subject to the approvals of the relevant authorities;
- (j) **Notice of Certain Events:** Without prejudice to the generality of Clause 4.1(h), the Company shall promptly and without any delay notify the Underwriters of the following:
  - (i) the transmittal to the SC for filing or registration of any supplement to the Prospectus;
  - (ii) the receipt of any comments from the SC with respect to the Prospectus or any supplement to the Prospectus;
  - (iii) any request by the SC for any amendment or supplement to the Prospectus or for additional information; and

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- (iv) the issuance by the SC of any order suspending the effectiveness of the listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of the MSEB or the initiation of any proceedings for that purpose. In this respect, the Company shall make every reasonable effort to prevent the issuance of any such order and, if any such order is issued, to obtain the lifting thereof at the earliest possible time unless the Company shall, in consultation with the Underwriters, determine that it is not in its best interest to do so;
- (k) **Costs:** the Company shall pay all and any stamp duties and other fees (including legal fees on a solicitor and client basis), taxes or duties, including any interest and penalties resulting from delay or omission on the part of the Company, payable in Malaysia on or in connection with the execution and enforcement of this Agreement, the Public Issue and/or the creation, issue and allotment of the Issue Shares;
- (l) **Further Assurance:** the Company shall execute and do and procure all other persons, if necessary, to execute and do all such further deeds, assurance, acts and things as may be reasonably required in order to implement and complete the Public Issue so that full effect may be given to the terms and conditions of this Agreement;
- (m) **Delivery of Resolutions:** the Company shall deliver to the Underwriters, certified true copies of all relevant resolutions of the board of directors and shareholders of the Company relating to the Public Issue and this Agreement as the Underwriters may reasonably require; and
- (n) **Conditions Precedent:** the Company shall use its best endeavours to procure the fulfillment of all the conditions precedent in **Clause 6.1.**

***Conditions Precedent For Underwriting***

The obligations of the Underwriters under this Agreement shall be conditional upon the fulfillment and/or satisfaction of the following:-

- (a) the MSEB having agreed in principle on or prior to the Closing Date or such other date as may be agreed between the Managing Underwriter and the Company, to the listing of and quotation for (on terms satisfactory to the Underwriters) the entire issued and paid-up share capital of the Company on the Second Board of the MSEB;
- (b) the issuance of and subscription for the Issue Shares pursuant to and in accordance with the provisions hereof and in the Prospectus not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any agency, legislative, executive or regulatory body or authority of Malaysia (including the MSEB);
- (c) the registration of the Prospectus with the SC pursuant to the Securities Commission Act 1993 and subsequent lodgement of the Prospectus with the Companies Commission of Malaysia;
- (d) there having been, as at any time hereafter up to and including the Closing Date or the Extended Closing Date, as the case may be, no event of default pursuant to the provisions herein contained, and no breach of any representation, warranty, covenant, undertaking or obligation of the Company in this Agreement or which is contained in any certificate, statement, or notice provided under or in connection with this Agreement or which proves to be incorrect in any material respect; and

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- (e) there having been, as at any time hereafter up to and including the Closing Date or the Extended Closing Date, as the case may be, no material adverse change, or any development involving a prospective material adverse change, in the financial condition or business or operations of the Company or business or operations of the Company or in the prospects or future financial condition or business or operations of the Company (which in the reasonable opinion of the Underwriters, is or will be material in the context of the Public Issue and the sale of any Underwritten Shares) from that set forth in the Prospectus, nor the occurrence of any event nor the discovery of any fact rendering inaccurate, untrue or incorrect to such extent which is or will be material in any of the representations, warranties, covenants and undertakings and obligations of the Company herein contained.

In the event any of the conditions set forth in **Clause 6.1** are not satisfied on or before the Closing Date or Extended Closing Date, as the case may be, the Underwriters shall be released and discharge from their obligations hereunder whereupon this Agreement shall be of no further force and no party shall be under any liability to the other in respect of this Agreement, save and except that the Company shall remain liable in respect of its obligations and liabilities hereunder including the payment of the Managing Underwriter's Fees, the Underwriting Commission and the payment of costs and expenses as provided in **Clause 15** which has been incurred prior to or in connection with such termination and for any antecedent breach under this Agreement.

***Undersubscription Of The Underwritten Shares***

If, on the Closing Date or the Extended Closing Date as the case may be or such later date as the directors of the Company may determine in agreement with the Underwriters, the whole of the Underwritten Shares have been validly taken up in full, then no allotment of the Underwritten Shares shall be made to the Underwriters, but, if on such date, the Underwritten Shares shall not have been validly taken up in full, then the Underwriters shall be bound, subject to the fulfillment of the conditions in **Clause 6.1**, to subscribe for so much of the Underwritten Shares not subscribed pursuant to the Public Issue in proportions with their respective commitments as stipulated in **Column 4** of the **Schedule** upon the terms and subject to the conditions of this Agreement.

***Termination***

Notwithstanding anything herein contained, the Underwriters may, at any time, be entitled to terminate their obligations under this Agreement by notice in writing delivered to the Company, if in the reasonable opinion of the Underwriters, there shall have occurred, happened or come into effect, any of the following circumstances, on or before the Closing Date or the Extended Closing Date as the case may be, namely:-

- (a) any government requisition or other occurrence of any nature whatsoever which would or is likely to have a material adverse effect on the financial condition or business or operations of the Company, and/or the prospects or future financial condition or business or operations of the Company;
- (b) any change in national or international monetary, financial, political or economic conditions or exchange control or currency exchange rates which would or is likely to have a material adverse effect on the success of the Public Issue, and the distribution of the Issue Shares or the sale of any Underwritten Shares (whether in the primary or in respect of dealings on the secondary market);

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- (c) any change in law, regulation, directive, policy or ruling in any jurisdiction which would or is likely to have a material adverse effect on the success of the Public Issue and the distribution of the Issue Shares or the sale of any Underwritten Shares (whether in the primary or in respect of dealings on the secondary market);
- (d) any event or series of events beyond the reasonable control of the Underwriters by reason of force majeure which has or is likely to make this Agreement or any part thereof incapable of performance or which would or is likely to have a material adverse effect on the success of the Public Issue and the distribution of the Issue Shares or the sale of any Underwritten Shares.

“Force Majeure” shall mean causes which are unpredictable and beyond the reasonable control of the party claiming force majeure which could not have been avoided or prevented by reasonable foresight, planning and implementation [including without limitation (i) war, acts of warfare, hostilities (whether war be declared or not) invasion, incursion by armed force, act of hostile army, nation or enemy; (ii) riot, uprising against constituted authority, civil commotion, disorder, rebellion, organised armed resistance to the government, insurrection, revolt, military or usurped power, civil war, industrial action; (iii) flood, fire, arson, storm, lightning tempest, accident, or other Acts of God; and (iv) epidemic, explosion, disease, earthquake, hijacking, sabotage, crime;

- (e) any breach of any representation, warranty, covenant, undertaking or obligation of the Company in this Agreement or which is contained in any certificate, statement, or notice provided under or in connection with this Agreement or which proves to be incorrect in any material respect;
- (f) the occurrence of any event or the discovery of any fact rendering inaccurate, untrue or incorrect to such extent which is or will be material in any of the representations, warranties, covenants and undertakings and obligations of the Company herein contained; or
- (g) any withholding of information by the Company from the Underwriters of information of material nature which is required to be disclosed pursuant to this Agreement which in the opinion of the Underwriters, would have or can be reasonably be expected to have, a material adverse effect on the business or operations of the Company.

Upon the delivery of such notice referred to in **Clause 14.1** by the Underwriters, the following shall take place within seventy-two (72) hours of the receipt of such notice:

- (a) the Company shall make payment of the Underwriting Commission to the Underwriters; and
- (b) each party shall return all other moneys (in the case of the Underwriters, after deducting the Underwriting Commission due and owing to the Underwriters hereunder) paid to the other under this Agreement (except for monies paid by the Company for the payment of the expenses as provided hereunder);

and thereafter, this Agreement shall become null and void and of no further force and effect and none of the parties shall have a claim against the other save and except in respect of any antecedent breaches.

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**2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE *(Cont'd)***

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The Underwriters and the Company may confer with a view to deferring the Public Issue or amending its terms or the terms of this Agreement and enter into a new underwriting agreement accordingly, but neither the Underwriters nor the Company shall be under any obligation to make a fresh agreement.

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### 3. RISK FACTORS

Prior to making an investment decision, potential investors should carefully consider the following investment considerations, which may have a significant impact on the future performance of the ARB Group in addition to all the other relevant information, contained elsewhere in this Prospectus, before making an application.

#### 3.1 No Prior Market For ARB Shares

Prior to this Public Issue, there has been no public market for ARB's shares and there can be no assurance regarding the future development of the market for the shares upon its listing on the Second Board of the MSEC. The Issue/Offer Price of RM1.20 per ordinary share has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and standing, the future prospects of the Group and the industry in which the Group operates in, the NTA of the Group and the prevailing market conditions at the time of application to the SC for the listing.

There is no assurance that the Issue/Offer Price will correspond to the price at which the ARB Shares will trade on the Second Board of the MSEC upon or subsequent to its listing or that an active market will develop thereafter. The eventual price and market of the ARB Shares will be dependent upon market forces beyond the control of the Company.

#### 3.2 Business Risks

The ARB Group is principally involved in the manufacturing of timber based products, specifically, sawn timber, veneer, plywood, Tego plywood, polyester plywood and blockboard. Other services offered by the Group include rental of scows and tugboats for transportation, rental of machinery and contract sawing services. Therefore, the Group is subject to certain business risks inherent in the timber-related industry. These include but are not limited to, changes in competitive conditions, changes in consumer demands, constraints in labour supply, source of raw materials, capability to diversify, fluctuation in price of products, global economy, entry of new players, increase in production costs, changes in business and credit conditions, changes in technology, product substitution and changes in operating conditions.

The Group seeks to minimise these risks by adopting various measures including:-

- (i) product diversification, such as Tego plywood and polyester plywood;
- (ii) increased emphasis on quality of products and branding;
- (iii) undertaking of research and development to enhance existing products and improve production and operational processes;
- (iv) good management practices and increased automation to reduce dependence on labour; and
- (v) strengthening of marketing strategies and distribution network.

Although the Group continuously seeks to minimise these risks, there is no assurance that any changes to these factors will not have an adverse effect on the Group's businesses.

#### 3.3 Availability of Raw Materials

In the timber industry, the availability of timber logs is truly a factor that will impact the growth of any timber processing business. The supply of timber logs for the use in the manufacturing of timber products is limited. However, with the Government's support for sustainable forest management throughout Malaysia, the future supply of timber is expected to be assured.

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

In order to mitigate the risk of shortage of timber logs, the Group has signed 2 long term supply agreements as follows:-

- (i) Supply Agreement dated 3 May 2002 between AHSB and Bintang Tawau Sdn Bhd for the supply of a total annual volume of 180,000m<sup>3</sup> of logs ("Products") for a period of ten years commencing from 1 November 2001 to 31 October 2011; and
- (ii) Supply Agreement dated 6 May 2002 between AHSB and Seraya Permai Sdn Bhd for the supply of a total annual volume of 120,000m<sup>3</sup> of logs ("Products") for a period of three years from the date of commencement of logging operations or until all the timber on the logging area has been completely extracted, whichever occurs earlier. The logging operation commenced on 22 April 2002.

Subsequently, AHSB and its respective log suppliers namely Bintang Tawau Sdn Bhd and Seraya Permai Sdn Bhd had entered into two (2) separate supplemental agreements dated 22 October 2003 whereby the parties have agreed that AHSB:-

- (i) is not obliged to purchase all the amount of Products guaranteed to be supplied by Seraya Permai Sdn Bhd, under the supply agreement dated 6 May 2002; and
- (ii) is not obliged to purchase the amount of Products guaranteed to be supplied by Bintang Tawau Sdn Bhd, under the supply agreement dated 3 May 2002.

Since ARB's current consumption is approximately 136,000 m<sup>3</sup> per annum, these supply contracts are expected to adequately cover the Group's needs. The Group usually maintains approximately 34,000 m<sup>3</sup> of timber logs in its store as a buffer. In the event of emergency orders, the Group can tap into its inventory or source for raw materials from the existing suppliers in the market.

In view of the above, the Directors of ARB are of the opinion that the Group has sufficient supply of logs for its operations for at least for the next ten (10) years. In addition, the Directors of ARB had vide its letter dated 6 November 2003 confirmed to SC that the Group has sufficient supply of logs for its operations for at least for the next ten (10) years.

Other raw materials like glue and chemicals are man-made products and therefore are available from many sources, both locally as well as abroad. The Group enjoys cordial business relationships with its raw material suppliers and has strong support from its suppliers. It is not dependent on any single supplier for sourcing its raw material and always on the look out for alternative suppliers. Although the Group does not foresee any difficulty in the procurement of raw materials, no assurance can be given that any changes will not have material adverse impact on the Group's business.

#### 3.4 Price Fluctuations

There is no local central market for timber that facilitates the controlled purchase and distribution of timber. Timber prices are set individually, by agreement between supplier and customer based on each transaction. As such, prices vary greatly across the country, depending on wood species, product quality/grading and sizes. The same is the case for export prices, where premiums or discounts are arrived at by individual transaction negotiations. ARB seeks to reduce the impact of price fluctuations by competing on quality and monitoring production costs. The Group's Double Gold Fish brand can often fetch premium prices in the export market due to its quality.

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

#### 3.5 Foreign Exchange Risk

Based on the audited accounts for the financial year ended 31 December 2002, approximately 97% of the Group's turnover was derived from export sales. As such, the Group is exposed to a foreign exchange fluctuation risks.

Even though the imposition of currency controls via the pegging of the RM to USD at the fixed exchange rate of USD1.00 to RM3.80 by Bank Negara Malaysia since September 1998 has stabilised the risks arising from the foreign exchange fluctuations, there is no assurance that the currency control will remain and that the future foreign exchange fluctuations arising from the lifting of the currency controls or the adjustment of the RM to the USD peg will not adversely affect the financial results of the ARB Group.

#### 3.6 Insurance Coverage

The Directors of ARB are of the opinion that the major assets of the Group, comprising largely landed properties, plant and machinery, stocks, heavy equipments, tug boats and scows are adequately insured for public liability and fire.

In addition, in its aim to address the operational risk such as fire outbreak, disruptions in electricity supply and other emergency risks which could jeopardise the Group's operation, the Group has put in place the following risk management practices/plans:-

##### *Breakout of Fire*

- (i) Adequate fire extinguishers are put in strategic places as recommended by the insurers and/or Jabatan Bomba and to replace them promptly prior to expiry date;
- (ii) To provide training to security personnel on method of handling fire fighting equipment; and
- (iii) 2 units of water reservoir and 1 unit of high-rise platform water tank are built to cater the need of water usage at all time. These units are meant for emergency and staff's consumption purposes only.

##### *Electricity Supply*

- (i) The Company has currently installed 6 units of generator sets, 3 units of which are meant for emergency use; and
- (ii) Constant maintenance/service work is conducted on timely basis on the generator sets.

##### *Machineries Condition*

- (i) Monthly services are done constantly to ensure that the machineries are maintained properly;
- (ii) To conduct major overhaul in the interval period of 5 years on all major machineries; and
- (iii) Routinely use spare parts are always store for emergency use.

However, there can be no assurance that there will not arise any incident or event which may not be covered or fully covered under such insurance policies obtained which may adversely affect the financial position/performance of the Group. In addition, no assurance can be given that even with the existing management practices/plans in place, the business operations and financial performance of the Group will not be affected in the event one or a combination of operational risk factors crystallise.



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

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**3.7 Competition and the Impact of AFTA**

ARB Group faces competition from other companies in both its local and overseas markets as it operates in an industry that has a number of established competitors.

The largest timber operators in Malaysia are found in Sarawak. This is mainly due to the state's supply of raw materials and transportation convenience (availability of the Rejang River and ports.). These players are the Rimbunan Hijau Group, the Samling Group, the WTK Group, the KTS Group, Limbang Trading and Pan Pacific Asia Bhd. In Sabah, the Group faces close competition with other players namely AikBee Resources Berhad, Evermaster Group Berhad, Permaju Industries Berhad and Tekala Corporation Berhad. Malaysia's main competitors are Indonesia, Thailand, Cambodia and Papua New Guinea

With the advent of trade liberalisation brought about by AFTA, the timber industry must adopt more efficient production systems by utilising automation to improve productivity and quality to survive in the market. In addition, the implementation of AFTA would result the tariff rates among the ASEAN Member States, namely Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Lao PDR, Myanmar and Cambodia, for forestry products being below 5% or totally eliminated by 2015, except for those in the highly sensitive lists. The Group will potentially benefit from the implementation of AFTA from the following:-

- (i) preferential access into the larger market of ASEAN with a population of 530 million;
- (ii) a wider base for competitive sourcing of raw materials from countries in the region; and
- (iii) opportunity to cooperate and collaborate with ASEAN partners to tap both the regional and global markets.

Whilst no assurances can be given that the Group will be able to maintain the existing market share in the future and to compete in the global market, ARB will continue to take effective measures to maintain its competitiveness, such as diversifying its products base, ensuring good quality products, branding and improvement in production processes to reduce costs.

**3.8 Ownership And Control by Certain Shareholders**

Upon completion of the Public Issue, the controlling shareholders of ARB will be Datuk Yeo Wang Seng, his family members namely, Yeo Gee Kuan Yeo Wang Ting and Datin Yap Que Chun and person connected to him namely Soh Poh Choo. Collectively, they control approximately 44.45% and 45.85% of the ARB Group after the Public Issue and after full conversion of ICPS respectively. The aforesaid shareholders, if they act together, may be able to influence and/or control the outcome of certain matters requiring the votes of the Company's shareholders unless they are required to abstain from voting by law and/or by the relevant authorities.

Aspirasi Puspita Sdn Bhd, a substantial shareholder of ARB, will pledge a total of 10.70 million ARB Shares and 2.20 million ICPS to Danaharta Managers Sdn Bhd as consideration for the latter to withdraw the existing suits and to discharge and replace the three (3) corporate guarantees with certain conditions as disclosed under Section 9.5(iii) of this Prospectus. In the event that the conditions are not met, Danaharta Managers Sdn Bhd reserves the rights to proceed with further action including, but not limited to, re-filing legal action to recover the loan amount outstanding.

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

All necessary actions will be taken in order to meet the conditions imposed by Danaharta Managers Sdn Bhd, failure of which would result in the dilution of shareholdings of Datuk Yeo Wang Seng and his family member and a possibility of introduction of new substantial shareholders should Danaharta Managers Sdn Bhd opt to foreclose the securities pledged. Approximately 12.53 million ARB Shares, being 10.70 million ARB Shares and approximately 1.83 million ARB Shares upon conversion of the 2.20 million ICPS, represents approximately 20.51% of the enlarged share capital of ARB upon full conversion of the ICPS.

#### 3.9 Dependence on Certain Customers

The Group's major customers comprise of intermediaries, construction companies and furniture makers both locally and overseas. The Group is not over dependent on a single customer for its revenue base. This is further supported by the fact that eight (8) out of its top ten (10) customers have been doing business with the Group for more than 2 years, details of which are set out in Section 4.8 of this Prospectus. The top ten (10) customers of the Group representing approximately 49.0% of the Group's total turnover for the eight (8) month period ended 31 August 2003,

#### 3.10 Political and Economic Considerations

Adverse developments in the political and economic scene in Malaysia and ARB's overseas markets could unfavourably affect the financial prospects of the Company. These include economic slowdown, foreign exchange controls and changes in policies on trade, taxation, tariffs and duties as well as risk of war.

Whilst no assurances can be given that adverse political and economic conditions will not materially affect the Company, the Company will continue to undertake measures such as market diversification, prudent financial management and efficient operating procedures to mitigate such risks. Nonetheless, no assurance could be given that any change to these factors would not have any material adverse impact on the Group's business.

#### 3.11 Environmental Considerations

Environmental conservationists have condemned timber-processing businesses, especially where indiscriminate logging occurs. This can have an impact on the demand from countries where these "green" movements are strong. For example, timber-based exports to Europe have fallen by at least 40% since 1992 due to this reason. In order to allay the fears of customers for tropical timber products, Malaysia has fully complied and implemented the International Tropical Timber Organisation's sustainable forest management system since 2000 (*Source : Independent Market Research Report prepared by ACNielsen*).

Other environmental concerns include air pollution and disposal of waste products from wood processing.

As part of the Group's plan to adhere to the National Forestry Policy guidelines, ARB has also erected a smokeless incinerator on their premises to ensure that wood waste is disposed of in a more "environmentally friendly" manner. It has received the stamp of approval from the Sabah Department of Environment for compliance with the Clean Air Act – 1978.

Whilst ARB continuously seeks to comply with regulations and guidelines concerning sustainable forest management and environmental preservation, there is no assurance that any further environmental controls and restrictions will not have a material impact on the Group's business.

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

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#### **3.12 Government Control and Regulation**

The timber industry is subject to various governing laws and regulations, such as the national Forestry Policy, 1978. As a timber-based products manufacturer, there are certain approvals and/or licences that need to be obtained from the Government to commence operations. These laws, regulations and licenses may be subject to changes by the Government.

#### **3.13 Dependence on Key Personnel**

The Group is headed by its Managing Director, Datuk Yeo Wang Seng and is supported by other Executive Directors. The Directors in turn are supported by a team of senior management with some of them having approximately more than 20 years of experience within the wood processing industry. Most of these personnel have been with the Group since the establishment of the Group's business. Therefore, the Company's future success will also depend upon its ability to attract and retain skilled personnel.

While the present owners are still actively involved in the management of the Group, the next generation of management has already been identified and is currently being groomed to manage the business. The Group is committed in providing its personnel with the opportunity for training and career advancement. The junior members and experienced personnel will be groomed to complement the senior members to ensure the continuity and the competency of the management team.

However, there can be no assurance that the above measures will always be successful in retaining key personnel or ensuring a smooth transition should changes occur.

#### **3.14 Seasonal Sales and Weather Conditions**

Generally, the timber processing industry is subject to seasonal trends and changes in weather conditions which affect the supply of timber logs. The industry is also dependent on the economic development and consumption in the countries where the customers operate.

ARB is confident that it is able to minimise the risk of seasonal sales by selling to different regions and sourcing its raw material from various suppliers. However, there is no assurance that any adverse changes of these factors will not have a material and significant impact on the Group's performance. The Group does not have insurance coverage for loss of revenue due to these factors.

#### **3.15 Risk Associated with Borrowings**

The ARB Group finances its operations using internally generated funds and bank borrowings. Excessive bank borrowings may result in an increase in interest expense which may subsequently erode the profitability of the Group. In addition, excessive bank borrowing may result in the assets of the Group being pledged with the financial institutions for the loans obtained. In the event the Group is not able to service the interest and principal repayment as scheduled, the financial institutions may force the Group to dispose the assets pledged in order to repay the outstanding borrowings.

As at 7 January 2004 (being the latest practicable date prior to the printing of this Prospectus), the total outstanding borrowings of the Group, all of which are interest bearing, amounted to approximately RM41.894 million, of which approximately RM15.291 million are short term whilst the balance of RM26.603 million are long term. Details of the outstanding borrowings of ARB Group can be found in Section 9.5(ii) of this Prospectus.

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

The Group, pursuant to facility/loan agreements entered into by the Group with banks or financiers, are bound by certain positive and negative covenants, which may limit the Group's operating and financial flexibility. The aforesaid covenants are of a nature which are commonly contained in credit facility agreements in Malaysia. Any act by the Group falling within the ambit or scope of such covenants will require consent of the relevant bank/financier. Breach of such covenants may give rise to a right by the bank/financier to terminate the relevant credit facility and/or enforce any security granted in relation to that facility. The Board of Directors of ARB is aware of such covenants and shall take precautions necessary to prevent any such breach.

#### **3.16 Dependence on Particular Markets and Industries**

The Group's major customers are mainly in construction and furniture industries. Approximately 97% of the Group's turnover for the financial year ended 31 December 2002 is derived from exports sales, details of which are set out in Section 9.2 of this Prospectus. ARB's products are exported mainly to South Korea, Singapore, China (via Hong Kong), Japan, Taiwan and USA. For sawn timber, the Group also sells to Europe and Middle East via timber agents in Singapore or Tawau.

As such, should there be any adverse economic and market conditions in the construction and furniture industries of these particular export countries, the Group's business may be materially affected.

#### **3.17 Compliance with Licenses**

It is a condition under license number JP(PT) 083/00 (M)R issued by Jabatan Perhutanan Sabah Malaysia to AHSB that the license may be cancelled at any time should it be deemed necessary in the interest of the public. The said license allows AHSB to export processed timber such as sawntimber, plywood, veneer, blockboard, polyster plywood, phenolic film face and container flooring panel.

As AHSB is the major contributor to the Group and approximately 97% of the products are exported for the financial year ended 31 December 2002, the cancellation of the export license granted to AHSB will materially affect the Group's financial performance.

#### **3.18 Profit Estimate and Forecast**

This Prospectus contains the financial estimate and forecast of ARB for the financial year ended/ending 31 December 2003 and 31 December 2004 respectively that is based on assumptions, which the Directors deem to be reasonable, but which nevertheless are subject to uncertainties and contingencies. Because of the inherent uncertainties of the estimates and forecast and because events and circumstances frequently do not occur as expected, there can be no assurance that the estimate and forecast contained herein will be realised and actual results may be materially different than those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the estimates and forecast that are contained herein.

#### **3.19 Disclosure Regarding Forward-looking Statements**

This Prospectus contains several forward-looking statements, that is, those other than statements of historical facts. Although the Group believes that the expectations reflected in such statements are reasonable at the time this Prospectus is issued, there can be no assurance that such expectations will prove to have been correct. Any differences in the expectations of the Group from its actual performance may result in the Group's financial and business performance and plans to be materially different from those anticipated.

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

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**3.20 Failure/Delay in the Listing Exercise**

The listing exercise is also exposed to the risk that it may fail or be delayed should the following events occur:-

- (a) the Bumiputera investors approved by the MITI fail to subscribe to the portion of the Public Issue Shares and Offer Shares allocated to them;
- (b) the placees under the private placement fail to subscribe for the portion of the Public Issue Shares placed to them;
- (c) the Underwriters exercising their rights pursuant to the Underwriting Agreement discharging themselves from their obligations thereunder; or
- (d) the Company is unable to meet the public spread requirements i.e. at least 25% of the issued and paid-up capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares at the point of listing and after full conversion of ICPS.

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