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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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the company to ensure the effectiveness of the programme. The company has a schedule of distributing rat bait and checks them to see if the rat baits have been taken by rats. Otherwise, the bait will be reused in other places or a different type of bait will be used to prevent bait-shyness. Rat traps are also used to identify the rat index estimation as requested by the DVS under SALT.

Fly baits are used to control the amount of flies in the farms as well as the workers' quarters. The baits are checked daily and replaced whenever they are finished. The workers will clear the chicken manure in the chicken sheds every four (4) days to five (5) days to reduce the chances of fly reproduction. All carcasses and rubbish are not allowed to be exposed and they will be disposed as soon as possible. Any spillage of feed will be cleaned fast so as to prevent flies from being attracted to them.

There is a team of people responsible in controlling the weed from growing in the farms. These workers will go from farm to farm and spray weed-controlling chemicals to control the growth of weed. Each farm will need to be sprayed at least once a month.

TSF has a system for the immediate removal of sick and dead chickens, which are then properly disposed. Dead chickens found in the sheds will be collected every morning for burning in an incinerator.

TSF also takes precaution when disposing used vaccines vials. It is our Group's policy, to soak the vaccine vials in a concentrated disinfectant immediately after they are used and also burned at the end of the day. None of the used vaccine vials can be re-used even after they are cleaned and disinfected. This is the normal practice by our Group to prevent any bacteria and viruses from infecting the chicken in the farms.

As a testament to the quality assurance measures undertaken by our Group, in 2005 TSF successfully obtained export approval status from AVA through DVS for our Group's poultry farms Layer 2 and Layer 5 to export eggs to Singapore. As the National Food Safety Authority in Singapore, the AVA is empowered to grant the required approval status. Each consignment of eggs must be derived from a single farm in Malaysia, and accompanied by a Veterinary Health Certificate issued by the DVS. The certificate must be dated within seven (7) days of import of the consignment. Upon arrival, the eggs will be subjected to inspection by the authorised officers of the AVA. The primary requirement is that the eggs must be clean and fresh. The eggs may be subjected to microbiological examination before release. In addition, sampling for laboratory analysis may be required.

##### **TSPP: Paper egg tray manufacturing**

In the production of paper egg trays, TSPP will conduct two (2) quality checks in the entire paper egg tray production. The first check is conducted after the recycled papers go through the mixer and pulper tank for mixing. The workers will check whether the recycled papers are mixed and pulped evenly. The second check will be conducted on the finished products before they are packed and stored in the storage room. The supervisor of TSPP will examine the weight and the shape of the paper egg trays. Any defective paper trays will be discarded and be reused for the production of further paper egg trays.

##### **TSFM: Feedmill manufacturing**

The Quality Control inspector will conduct a quality control check when the raw materials are delivered to the TSFM's premise. Raw material samples are sent to an independent laboratory for examination on the ingredient content.

In order to provide a high quality feeds, TSFM maintains a clean and hygienic environment in the factory to not only provide a good working environment for the staff but also to ensure a bacterial-free environment. There is a clean-up of the production area after every production period. Both the raw material and finished product areas also require cleaning on a weekly basis. A weekly fogging that is required to prevent insect infestation and disinfection is also carried out to reduce the bacterial load. There is also regular cleaning of the feed silo and silo trucks.

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

##### Ritma

Ritma is engaged in the sales and marketing of animal health products. Therefore its quality assurance measures are limited to ensuring the supplies provided by the suppliers are packed and sealed properly. This is to ensure the products sold are not tampered.

#### 4.3.9 Principal markets and mode of marketing/distribution

##### 4.3.9.1 Principal markets

The majority of our Group's principal product, chicken eggs, are sold to the local market in Peninsula Malaysia. However, about 18.10% of our total egg sales was contributed by the exports to Singapore and Hong Kong for FYE 31 March 2008.

Besides chicken eggs, almost all of our egg trays and animal healthcare products are sold in the local market as well. Approximately 3.10% of the total paper egg trays sales was contributed by the exports to Singapore, Thailand and Taiwan for FYE 31 March 2008. Approximately 8.04% of total animal health products sales was contributed by the export to Singapore and Indonesia for FYE 31 March 2008. Our Group's production of feeds, on the other hand, is only sold in Malaysia, whereby more than 90% is purchased by TSF.

The market segmentation of our Group's products for FYE 31 March 2008 is shown below:

Products	Principal Market	% Distribution FYE 31 March 2008
Eggs	Local	81.90
	Overseas	18.10
Paper Egg Trays	Local	96.90
	Overseas	3.10
Animal Feeds	Local	100.00
Animal Health Products	Local	91.96
	Overseas	8.04

##### 4.3.9.2 Modes of marketing/distribution

One of the main features of the Malaysian layer farming industry is the important role played by wholesalers in the distribution of the eggs. Across the board, it is the industry norm for local layer farmers to sell the bulk of their egg production to wholesalers. This practice has its benefits, particularly since the egg is a perishable product and its freshness is a key criterion in its marketability, hence eggs have to be delivered to retailers as soon as possible.

Wholesalers with their ready distribution networks and logistical capabilities would have the means to do this, whilst it would be a time consuming and costly affair for the layer farmers to continually source for customers and to incur capital investment in logistical capabilities to make such timely deliveries. In addition, wholesalers are entirely responsible for the marketing, promotion and distribution of the products.

Hence, the sale of eggs to wholesalers is, especially to the smaller layer farmers, a commercially prudent practice, resulting in cost savings for the layer farmers and leaving them to concentrate on what they do best, and that is layer farming. Our Group also takes advantage of the commercial convenience offered by wholesalers and the bulk of our Group's eggs are sold to them.

However, our Group does not completely rely on sales to the wholesalers. Being an established layer farmer, we also have our own set of customers to whom we sell directly to, such as Apollo Foods Industries Sdn Bhd and Munchy Food Industries Sdn Bhd. As and when it is commercially viable to do so, our Group will seek to broaden our customer base of end-users and retailers, hence reducing the role of the wholesalers and improve the margins.

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

For this purpose, our Group has a marketing department with 18 marketing staff headed by Loh Wee Ching and Nam Hiok Joo to market the eggs/paper egg trays, and feeds/animal health products respectively. The marketing staff is responsible for promoting and marketing our Group's products as well as to maintain and build relationships with existing customers, and sourcing new customers for our Group.

Due to the fact that the reputation of our Group's products is already established in the market, many of our new customers are introduced to our products and services through word of mouth. On a yearly basis, our Group will participate in exhibitions and fairs, such as the Livestock Asia Expo and Forum, to promote our products.

In the case of Ritma, the company has been appointed as the sole agent to distribute some of Bayer Thai Co. Ltd's animal health products to customers located in Malaysia, Singapore and Brunei. Ritma also obtained another distributorship from Farm Care GB Ltd, United Kingdom to distribute its disinfectants in Malaysia, Singapore and Indonesia. Furthermore, Ritma obtained the sole distributorship from Vetpharm Laboratories (S) Pte Ltd, Singapore to distribute some of its animal antibiotics and supplements in Malaysia. In addition, Ritma also assists other suppliers, such as Nutri-Ad International N.V. from Belgium and Bayer CropScience (M) Sdn Bhd from Malaysia, in distributing their animal feed additives and insecticides respectively in Malaysia. Thus, our Group promotes our animal health products mainly through presentations in veterinary pharmaceutical seminars and road shows organised by Ritma and the suppliers.

In addition to our marketing efforts disclosed above, our Group maintains an active website, i.e. <http://www.teoseng.com.my>, where existing, new and prospective customers can contact us, as well as obtain information about our Group and our products.

##### 4.3.10 R&D

R&D activities are essential for any layer farming business that wishes to enjoy continued growth and market expansion to increase the competitiveness of its eggs, as well as to reduce the cost of production. Realising this from the outset, our Group firmly believes in, and has undertaken, R&D initiatives towards the improvement of our processes and products to strengthen our business operations. However, due to the low margins in the business, we adopt a pragmatic and prudent approach in respect of R&D activities, in order to ensure that its R&D expenditure increases value-add and cost effectiveness of the Group whilst not jeopardising our profits. Our R&D activities are led by Na Yok Chee, the Executive Director and Nam Hiok Joo, the General Manager of TSMF.

The R&D initiatives of the Teo Seng Group can be divided into several categories, as follows:

##### (i) Improvement in feed formulation

The main R&D efforts are geared towards improving the productivity of the layer chickens and the quality of the eggs produced, which are the principal product of our Group.

In this, feed formulation plays a vital role, as the nutritional content of the feeds will have a bearing on the health and nutritional level of the layer chickens, the effects of which would flow down to the number and quality of eggs produced. Healthy layer chicken will lay more eggs that are of a better quality with higher nutritional content.

This is a key reason for the setting-up of our own feedmill for our Group to have better control over the feed formulation. Different feed formulas are constantly explored to enhance the productivity of the birds and the quality of the eggs. In addition, different feed formulations are required at the various stages of a layer chicken's lifespan. From time to time, new feed formulations are experimented and the birds' responses to the different formulations are also closely monitored. The success in producing high nutrition feeds for the chickens can be measured by the increase in performance of the egg production and, subsequently, egg quality. The effects of having the proper feed formulation can be seen from the increase in the productivity of the birds, as well as reduced mortality rates. Overall, there is an increase in the productivity of the farms.

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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Within our Group, a team of about three (3) experts are involved in the formulation. In addition, our Group also taps into the technical know-how and experience of its parent company, LHH, wherein technical experts from the LHH group are brought in to aid in the formulation and, in the process, transferring their skills and expertise, thus benefiting our Group in the long run.

Further, in attempting to break out of the low margin business of generic eggs, our Group has taken its R&D into feed formulation one step further, by producing feed specifically for the production of the Group's premium eggs, known as "Happy Eggs". The nutritional content of such feed, which first began in 1998, is substantially higher than that of normal feed, resulting in the production of eggs with higher nutritional value. For this reason, "Happy Eggs", like other premium eggs, command a premium in the market compared to generic chicken eggs.

**(ii) Layer breed selection**

A key factor in determining the productivity of the layer chickens is the breed of the birds. Different breeds have different rates of growth and productivity, which are in turn influenced by the individual breed's adaptability to the farm environment and feed.

The trials of the various breeds were conducted hand-in-hand with the experiments on the feed formulation, in order to find the most productive combination. This is based on a combination of know-how, experimentation and experience, which is an on-going process conducted since 1992. Through the close monitoring of the productivity and reaction of the different breeds to the feed formulation, our Group has finally settled on the breeds which have produced the best results so far.

Going forward, our Group will conduct further trials for new breeds of layer chickens as and when they appear in the market and it is commercially viable for our Group to consider phasing out its existing layer chickens.

**(iii) Quality control and management**

Research must also be continuously conducted to ensure that the necessary standards of product quality are maintained. R&D in quality control involves an integrated system to monitor, assess and report on the performance and/or quality of the various stages of an existing production process. Should the results prove unsatisfactory, efforts will then be undertaken to rectify the situation, sometimes, through the implementation of process development and/or improvement, as described in Section 4.3.10(iv) below.

It was R&D in this respect that led to the identification of the weaknesses inherent in the earlier rearing techniques adopted by our Group and the subsequent implementation of the CHS and AIAO to reduce the mortality rate of the birds, as well as to improve productivity through the creating of a safer and more hygienic environment for the layer chickens.

Examples of on-going R&D for quality control can be found at the feedmill. There, raw materials are periodically checked, with samples sent to an external lab for further analysis. When the feed is produced, samples of the feeds are sent to the lab to ascertain if the feed ingredients were formulated according to the formulation set. Should the results show otherwise, studies would be conducted to identify the faults along the production processes and steps would be taken to rectify them.

**(iv) Process improvement and development**

Process improvement and development efforts centre on the design and/or customisation of plant and machinery from time-to-time so as to suit the requirements of our Group and to achieve optimum production and quality. The efforts can be oriented around increased utilisation of existing capital equipment assets, which are retrofit designs.

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

For example, our Group utilises process improvement and development to determine the optimum design of farm houses, including the design and specifications of the machinery within, such as the ventilation system to suit a particular farm house design. This is done each time the Group constructs a new farm house. Although the ventilation systems are purchased from external parties, modifications need to be made to take into account the size of the chicken house and number of layer chickens accommodated.

There is also the switch to the CHS of our Group's layer and brooding farms from the previous open-house farms, as a result of process improvement and development. The CHS practised in the farms has shown improvements in production, feed conversion rate and decrease in mortality as well as better fly and odour control. Another prominent example would be the implementation of the AIAO for the breeding of our chickens, which is further described in Section 4.3.3 above.

In addition, the machinery in the paper egg tray plant was sourced from external parties. However, some customisations to certain parts of the plant like the drying unit were undertaken by our Group so as to ensure a more uniform temperature circulation. Hence, there is a need for a thorough understanding of the detailed mechanical and equipment design, before modifications can take place during the process improvement and development stage.

##### 4.3.11 Interruptions in operations

Our Group did not experience any disruption in business which has a significant effect on our operations for the twelve (12)-month period prior to the date of this Prospectus.

##### 4.3.12 Information on employees

As at the LPD, our Group has a total of 474 employees and 18 Directors, of which 250 are foreign employees from Indonesia and Nepal under contractual employment for contract tenures of three (3) years. All of our foreign workers hold valid working permits and are not in breach of any immigration laws in Malaysia. None of our employees belong to any union and they enjoy good relationship with our management. There have not been any industrial disputes in the past between our employees and management. The total number of employees with the breakdown into categories as at the LPD is as follows:

Job category	Malaysian	Foreign	Total
Directors of the Group	18	-	18
Admin/Finance & Accounts	27	-	27
Sales & Marketing	18	-	18
Production & Operations:			
<i>TSF</i>	153	214	367
<i>TSPP</i>	17	28	45
<i>TSFM</i>	7	8	15
<i>Ritma</i>	2	-	2
<b>Total</b>	<b>242</b>	<b>250</b>	<b>492</b>
<b>%</b>	<b>49.2</b>	<b>50.8</b>	<b>100.0</b>

Our employees are responsible for a variety of functions, including management of the businesses, administrative works, farm management and maintenance, paper egg tray manufacturing, animal feeds manufacturing and the distribution of animal health products. All of the foreign contract employees are production and operation workers engaged in collecting eggs and chicken farm maintenance, the manufacturing of paper egg trays and the production of animal feed.

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

The breakdown of the average length of service of the employees under each category as at the LPD is as follows:

Job category	< 1 Year	1 To 5 Years	> 5 Years	Total	%
Directors of the Group	5	2	11	18	3.7
Admin/Finance & Accounts	7	10	10	27	5.5
Sales & Marketing	4	8	6	18	3.7
Production/Operation:					
<i>TSF</i>	22	54	77	153	31.0
<i>TSPP</i>	-	7	10	17	3.5
<i>TSFM</i>	2	1	4	7	1.4
<i>Ritma</i>	1	1	-	2	0.4
<i>Foreign Workers</i>	54	193	3	250	50.8
Total	95	276	121	492	100.0
%	19.3	56.1	24.6	100.0	

We recognise the importance of staff training and development in order to equip our employees with the necessary poultry farming knowledge and skill. We regularly send our key personnel to attend trade exhibitions, seminars, courses and training provided by our suppliers of feed additives and drugs as well as poultry farming experts. This enables our Group's employees to keep abreast of the latest developments in the commercial layer industry and is critical for the execution of any improvements in flock health and nutrition, processing efficiency, poultry inspection, egg products and nutritional content of eggs in the commercial layer industry.

Our accounting staff are also enrolled in various accounting seminars conducted by the Malaysian Institute of Accountants to strengthen and keep relevant their accounting skills.

Occasionally, our Group's supplier, Bayer Thai Co. Ltd, will carry out product training sessions and educate our marketing staff about its veterinary products. This training allows our marketing staff to understand the products better when they are marketing and promoting the products to their customers.

A list of training programmes, which our Group's employees have participated in for the past three (3) years, is as follows:

Date	Programmes	Organiser
27 March 2006	Seminar on Bayer Product—Baycox	Bayer Thai Co. Ltd, Ritma
16 May 2006	Seminar on Good Farm Practices Scheme (SALT)-- For the Development of HPAI Free Compartments	DVS
31 May 2006	Staff Training-- R3-Control of mycotoxins in grains and animal feed (Asia)	Bayer Thai Co. Ltd, Ritma
20 June 2006	Seminar on MS 1539 Malaysian Standard for Portable Fire Extinguishers-- Implementation and Enforcement	Department of Fire and Rescue Services Malaysia, The Institution of Fire Engineers
20 September 2006	Seminar on Bayer Product-- Baytril	Bayer Thai Co. Ltd, Ritma
11 December 2006	Seminar on Swine Diseases	Bayer Thai Co. Ltd, Ritma
5 March 2007	Seminar on Bayer Product—Catosal	Bayer Thai Co. Ltd, Ritma
8 May 2007	FRS Impact on Tax Returns & Latest Income Tax Development	Deloitte KassimChan Tax Services Sdn Bhd
17 July 2007	Seminar on Registration Guidance for Veterinary Products	National Pharmaceutical Control Bureau, Ministry of Health Malaysia

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

Date	Programmes	Organiser
18 to 20 July 2007	Seminars on Bayer Products – Baycox, Catosal, Rintal	Bayer Thai Co. Ltd, Ritma
6 August 2007	Seminar on Updated Listing Requirements	The Malaysian Institute of Chartered Secretaries and Administrators
4 to 6 September 2007	Seminars on INVE Nutri-Ad Products – Adimix	INVE Asia Services Ltd, Ritma
7 October 2007	Launching and Seminar of New Bayer Product – Advantix	Bayer Thai Co. Ltd, Ritma
8 October 2007	Staff Training – Bayer Companion Animal Health Products	Bayer Thai Co. Ltd, Ritma
17 October 2007	In-house Tax Workshop on Tax Budget 2007	PFA Tax Services Sdn Bhd
24 October 2007	Seminar on Animal Health Management	DVS, University Putra Malaysia, Meriden Animal Health Ltd., Sunzen Corporation, S.P Veterinaria S.A (Spain)
3 March 2008	Staff Training and Seminar on Bayer Products --- Rintal and Neguvon	Bayer Thai Co. Ltd, Ritma Prestasi Sdn Bhd
4 March 2008	Staff Training on INVE Nutri-Ad Product --- Toxi-Nil Liquid Plus	INVE Asia Services Ltd, Ritma Prestasi Sdn Bhd
18 March 2008	Workshop on 'On-line Submission of Veterinary Products Registration'	National Pharmaceutical Control Bureau, Ministry of Health, Malaysia
1 April 2008	Seminar on Lohmann Vaccines	Lohmann Animal Health (Thai) Co. Ltd, Ritma Prestasi Sdn Bhd
23 June 2008	Bayer Education Tour 2008- Antibiotics	Bayer Thai Co. Ltd, Ritma Prestasi Sdn Bhd, University Putra Malaysia (Faculty of Veterinary Medicine)
24 June 2008	Reinvestment Allowance Seminar	Deloitte KassimChan Tax Services Sdn Bhd
22 to 23 July 2008	Payroll Computation and Administration	Emprof Channel Sdn Bhd

#### 4.3.13 Key achievements or milestones

Summarised below are our key achievements/milestones since our Group first began in 1978:

Date	Description of Events
1978	➤ Our Group began with the rearing of broiler chickens in Batu Pahat, Johor under a sole proprietorship
1984	➤ Expanded our poultry farming business in Yong Peng, Johor by acquiring a broiler farm of 60,000 chickens and later increasing it to 90,000 chickens within one (1) year
1986	➤ Constructed our 2 <sup>nd</sup> broiler farm with a capacity of 60,000 chickens
1987	➤ Constructed our 3 <sup>rd</sup> broiler farm with a capacity of 60,000 chickens
1992	➤ Ceased broiler farming operations in all of our farms ➤ Converted the three (3) broiler farms in Yong Peng into pullet farms ➤ Commenced layer farming and constructed our 1 <sup>st</sup> layer farm for 120,000 chickens
1994	➤ Constructed our 2 <sup>nd</sup> , 3 <sup>rd</sup> , 4 <sup>th</sup> layer farms and 4 <sup>th</sup> pullet farm ➤ Original founders sold 51% equity stake to LHH ➤ 1 <sup>st</sup> CPS with a grading machine capacity of 50,000 eggs per hour was constructed

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

Date	Description of Events
1995	<ul style="list-style-type: none"> <li>➤ Started testing chicken farming under the CHS and later converted most of the layer farms into the CHS of layer farming</li> <li>➤ Constructed our 5<sup>th</sup> layer farm</li> <li>➤ Commenced operations in the manufacturing and marketing of paper egg trays</li> </ul>
1996	<ul style="list-style-type: none"> <li>➤ Purchased one of the largest egg grading machines in Malaysia, with a grading capacity of 150,000 eggs per hour to replace the old machine at the CPS</li> <li>➤ Constructed our 6<sup>th</sup> layer farm</li> </ul>
1997	<ul style="list-style-type: none"> <li>➤ Constructed and commenced operations of the 1<sup>st</sup> brooding farm, which has a more hygienic and secure environment for young chicks with growing period of one (1) day to four (4) weeks</li> </ul>
1998	<ul style="list-style-type: none"> <li>➤ Our Group successfully created our own premium eggs, under the brand name "Happy Egg"</li> <li>➤ Constructed our 7<sup>th</sup> layer farm</li> </ul>
2001/2002	<ul style="list-style-type: none"> <li>➤ Commenced operations in the manufacturing and marketing of animal feeds, using automated and computerised auto-mixing technology</li> <li>➤ Two (2) of our farms were awarded the NASCEP certificates</li> </ul>
2004	<ul style="list-style-type: none"> <li>➤ Some of our farms were first awarded the SALT certificates</li> </ul>
2005	<ul style="list-style-type: none"> <li>➤ Acquired Ritma in the distribution of animal health products. Obtained the sole distribution rights from Bayer Thai Co. Ltd to distribute some of its animal health products in Malaysia, Singapore, and Brunei</li> <li>➤ Successfully obtained import approval status from the AVA and penetrated the Singapore market to export eggs</li> <li>➤ Entered into a contract farming agreement with Success Century to produce eggs under contract</li> </ul>
2006	<ul style="list-style-type: none"> <li>➤ Constructed our 2<sup>nd</sup> brooding farm and 5<sup>th</sup> pullet farm</li> <li>➤ Construction began on the 2<sup>nd</sup> CPS</li> <li>➤ Acquired a grading machine with a grading capacity of 120,000 eggs per hour</li> <li>➤ Awarded the Award for Excellent Business Achievement by Bayer Thai Co. Ltd</li> </ul>
2007	<ul style="list-style-type: none"> <li>➤ Acquired another egg tray forming machine with a daily capacity of 40,000 pieces</li> <li>➤ Acquired another feed mixer</li> <li>➤ 2<sup>nd</sup> CPS started operation</li> <li>➤ Ritma obtained a sole distributorship from Vetpharm Laboratories (S) Pte Ltd, Singapore to distribute some of its animal antibiotics and supplements in Malaysia</li> <li>➤ Awarded Outstanding Emerging Livestock Award in the 4<sup>th</sup> Livestock Asia 2007 Expo &amp; Forum</li> </ul>
2008	<ul style="list-style-type: none"> <li>➤ TSF was acknowledged by DVS Johor for Maintaining Good Performance in Farming Practice for SALT Certificates</li> <li>➤ Ritma was awarded Silver Sales Achievement Award 2007 by Bayer Co. (M) Sdn Bhd- Bayer Environmental Science</li> </ul>

##### 4.3.14 Location of operations and principal assets

The locations of our operations are disclosed in Section 9.2 of this Prospectus, whilst a list of our principal assets is provided under Section 9.3.

##### 4.3.15 Competitive advantages

The competitive advantages of our Group are as follows:

###### (i) Integrated chicken egg producer

Ever since our Group first ventured into the commercial layer business in 1992, the management, through its many years of experience in the poultry industry, had recognised the



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need to establish the Group as an integrated egg producer in order to compete with the bigger players in the market.

With this in mind, throughout the past 15 years, we had undertaken several strategic business decisions to diversify our capabilities from being a mere producer of chicken eggs into a layer farming entity with our own set of complimentary support activities, such as the setting up of our own paper egg tray and feedmill manufacturing plants in 1994 and 2001, respectively, as well as the acquisition of a company which supplies veterinary medical products in 2005.

Notwithstanding the fact that the activities of these subsidiaries are distinct and unique from each other, the effective integration of their capabilities has resulted in a more efficient management of the supply chain, lower cost of production and improved productivity for the Group, as detailed below:

**Feedmill:**

The presence of a feedmill assists to control costs in our Group's operations. One unpredictable factor facing the commercial layer industry is the fluctuation in the prices of feed ingredients like corn and soya bean used in the feedmills, owing to the extreme volatility of grain prices. Unlike other commercial layer farms which do not possess a feedmill and hence are exposed to the vagaries of price fluctuations in feeds, causing uncertainty in the cost of production, our Group is better insulated from these effects. The company will have more control over determining the quality of the feed by sourcing for better quality feed ingredients and feed additives. In the commercial layer industry, superior feed is the foundation of a high quality end-product.

The feed formula differs for each stage of the layer chicken's life cycle. In addition, the formulation of the feed can be altered accordingly for the production of various specialty eggs, e.g. lower cholesterol eggs, vitamin E-enriched eggs and Omega 3 eggs. Feed additives are ingredients added to the basic feed to fulfil a specific need. They range from vitamins, minerals and antioxidants. They are used in different proportions in each type of pre-mix, according to the requirements for the type of feed manufactured and the poultry at each stage of growth. Farm operations that are increasingly becoming more integrated will be rendered less dependent on the imports of animal feeds.

**Paper egg tray plant:**

The establishment of a paper egg tray plant serves to provide packaging needs for the layer farm products. In addition, the supply chain is shortened and the operations of the paper egg plant enable the Group to be more responsive to market dynamics. Overall, the synergies enable better planning in the Group's operations, particularly in the packaging and marketing of eggs. The establishment of a paper egg tray plant also serves to recycle old newspapers and old magazines, which would otherwise cause congestions in the limited dumpsites around the country. With the scarcity of land, an immense volume of old newspapers and old magazines can be recycled into more valuable and value added products, hence preserving a greener environment for the future generations.

**Ritma:**

The possession of a trading company dealing in animal health products also enables our Group to maintain its cost competitiveness. This is due to the fact that the animal health products sourced from within our Group are cheaper than if they were bought from external suppliers. In addition, some of the more specialised animal health products are not available off-the-shelves and hence, have to be imported as the local agents do not carry them. Inevitably, there is also a delivery time involved and this factor may be crucial in certain cases. Hence, having our own dedicated company would allow us better supply chain control.

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The technical manpower in Ritma can also assist in recommending the correct formulation of animal health products and other technical advice for the layer farms within our Group on an ad hoc basis, the benefits of which are intangible.

With the undeniable benefits of being an integrated egg producer, as set-out above, this concept will be one of the key cornerstones of our Group's growth strategy in the future, and the management will continue to study and seek new businesses to further enhance our Group's internal capabilities in order to achieve a more complete and self-reliant group, with minimal dependence upon external service providers and raw material suppliers.

**(ii) Good animal husbandry practices**

Good animal husbandry practises in the farms are necessary to ensure that the birds stay healthy and disease-free, hence yielding the desired productivity. Our Group emphasises on biosecurity, hygiene, sanitation and good nutrition, and less on drugs and chemicals to promote growth and combat poultry diseases and illness. The practising of good animal husbandry leads to better farm performance, superior risk management and improved farm efficiency over the long-run. Although the exercise costs more, but the farm profitability will be improved eventually as there is less animal mortality and losses. Both environmental sanitation and waste management are stressed on, so as to reduce the risk of harbouring and propagation of pathogens. The premises and facilities in the farms have adequate ventilation and are regularly cleaned and sanitised.

Biosecurity programmes that will prevent the introduction and establishment of pathogens in the poultry flocks are also in place. They include multi-tier safety measures. All workers and visitors are required to undergo a sterilisation shower before entry is permitted into the farms. Also, all vehicles intending to enter the farms are disinfected at the entrance. Lastly, as an added measure, only trucks belonging to our Group are allowed to entry into the farms. The utilisation of internal trucks is for control purposes. These biosecurity programmes will not only reduce the health hazards in the products but also improve farm productivity.

As the commercial layer industry is subject to risks of disease outbreaks and adverse changes in weather conditions, TSF implements proper and timely vaccination of the flocks so as to keep their resistance levels high. Stringent flock health policy and spatial distribution of the chicken sheds also reduce the possibility of any major disease outbreaks. The stringent flock health policy includes the institution of the AIAO, operation of the CHS and adherence to a strict internal schedule of vaccinations. The AIAO and CHS are as described in Section 4.3.3 above.

In addition, there is a team of experienced and qualified personnel who are well-versed in disease prevention and control. They comprise one (1) full-time veterinarian and several experienced farm managers who are basically involved in the inspection, care and treatment of the layer chickens. Others include vaccination programmes like prescribing and administering drugs as well as the inoculation of the layer chickens against diseases.

Both rigorous biosecurity programmes and implementation of a stringent flock health policy also assist to lessen the probability of Avian Influenza infections. The entire farm is fenced up, with additional security measures in the form of enclosures around each individual chicken house. Therefore, other animals cannot venture inside the chicken house. Hence, contacts with infected wild birds, which are the usual form of bird-to-bird transmission, are minimised. These measures are crucial as domestic poultry in commercial operations live in crowded conditions, and under this condition, transmissions of the highly contagious Avian Influenza can take place relatively fast. Infected birds shed influenza virus in their saliva, nasal secretions, and droppings. Susceptible birds become infected when they come into contact with these fluids or with surfaces that are contaminated with the saliva, nasal secretions or droppings.

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

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**(iii) Widely spread farming operations**

The farming operations of our Group are spread out over a number of farms, as opposed to many players who concentrate their farms in one particular location. Although the concentration of all farming operations in one single location assists in cost control, the disadvantages outweigh the benefits, in terms of disease control. When a poultry disease strikes, the population of an entire farm could be wiped out, as opposed to a business operation spread out over a number of farm locations. In addition, the AIAO cannot be practised if all the farm operations are concentrated in one single location, as the various age groups of the various layer chickens need to be separated out into different farms, in order for the process to take place.

**(iv) Ability to achieve economies of scale**

Economies of scale arise from the ability to perform activities differently and more efficiently at larger volumes, or from the ability to amortise the cost of intangibles such as marketing expenses over a greater sales volume. It can also result from efficiencies in the actual operation of an activity at a higher scale as well as from less than proportional increases in the infrastructure or overheads needed to support an activity as it grows. Hence, the higher the production volume a company is able to achieve, the lower the unit cost of an egg, other things being equal. Our Group, being one of the largest companies in the commercial layer industry in the country, is able to reap substantial economies of scale from its operations.

**(v) Strong track record**

Our Group places priority in establishing a good rapport and long-term strategic relationship by providing high quality, prompt delivery and competitively priced products and services to our customers. Through enduring commitment and unwavering dedication, our list of long standing customers has increased steadily. Our Group has continuously endeavoured to produce high quality eggs and this has led us to successfully achieve a broad customer base. Customers demand high quality eggs which can be identified by thicker egg shells and which are light brownish in colour. Normally, the eggs are delivered to the customers within 24 hours of laying taking place in the farms, so as to maintain their freshness.

Our Group has also continuously strived to surpass even the most demanding expectations, by paying close attention to customer feedback and working in tandem with the customers to improve on product quality and to reduce production cost. This is through the establishment of a highly responsive business. For example, if there were complaints received in the market about the quality of the eggs from customers, the marketing personnel would investigate and analyse the problem from the eggs in the same batch. The farm production workers, veterinarians and marketing personnel would work in conjunction to solve the problem, so that the same problem does not occur again in the future.

**(vi) Good relationships with suppliers**

Over the years of operation, our Group has nurtured long-term business relationships with both our clients and suppliers, some of whom have been our business associates since our Group commenced business in the commercial layer industry about 15 years ago. By maintaining good relationships, we are confident of continued support and timely supply of raw materials from suppliers. In addition, our Group commands a good credit standing amongst our suppliers due to our prompt payment. In return, this has allowed us to enjoy both competitive prices as well as good credit terms from our business associates and ultimately, enabling us to maintain its overall competitive edge in the market. We are also accustomed to buying the raw materials in bulk due to our large-scale operations, allowing the company to reduce cost and to gain better purchasing power. At the same time, our Group is always on the look-out for more cost competitive raw materials, as these are basically commodities.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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**(vii) Stringent quality assurance**

Quality is a summation of all those characteristics which together make a product acceptable to the market. Hence, it follows that products which are lacking in quality will in the long term prove unmarketable, and that the purveyors of such products will go out of business. Quality assurance refers to an integrated system of activities involving planning, quality control, quality assessment, reporting and quality improvement to ensure that a product or service meets defined standards of quality, with a stated level of confidence. This assists to reduce rejects and wastage, as well as to increase yields.

In our Group's case, at the feedmill, the raw materials are checked, with samples sent to the lab for further analysis. When the feed is produced, samples of it are sent to the lab to ascertain if the feed ingredients were formulated according to the formulation set. On the other hand, at the layer farms, the quality control process takes place twice once the eggs are laid. At the initial stage, the farm workers would inspect the eggs, with the lower quality ones (having cracks, dirt, thin shells and abnormal colours) put aside to be marketed at a different grade and at a lower price. Subsequently, another quality control process would be undertaken at the CPS during the packaging process.

The granting of import approval status by the AVA is a testament to the quality assurance of the farm products of our Group. This is due to the fact that the AVA is very strict in granting import approval status to commercial layer farms outside the republic.

**(viii) Efficient logistics**

In commercial layer farming operations efficient logistics is a key factor in view of the perishable nature of eggs, especially for large scale operations such as that undertaken by our Group, including our support activities. Eggs produced in the farms need to be transported swiftly to the CPS to be graded, packed and made ready for delivery to our customers, whilst the feed and egg trays produced have to be delivered to our farms and CPS as well.

To achieve an efficient logistics system and solution, we are able to utilise our fleet of 24 trucks, which are mainly for our internal transportation needs. These trucks are also utilised to transport our eggs and other products to some of our direct customers (who are not wholesalers). In the future, our fleet may be expanded, but this will depend on the level and expansion of our business activities.

#### 4.4 SUBSIDIARIES

##### 4.4.1 TSF

**(i) History and business**

TSF was incorporated as a private limited company in Malaysia under the Act on 22 December 1983 under its present name. The company is principally involved in poultry farming and investment holding. For details regarding the history of TSF, kindly refer to Section 4.1.2 of this Prospectus.

**(ii) Share capital**

TSF has an authorised share capital of RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which 5,366,000 shares have been issued and fully paid-up.

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

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

Date of allotment	No. of shares allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
22.12.1983	3	1.00	Cash (Subscriber shares)	3
01.03.1984	74,397	1.00	Consideration for the acquisition of assets	74,400
15.05.1985	5,000	1.00	Cash	79,400
20.05.1986	138,950	1.00	Bonus issue of seven (7) shares for every four (4) existing shares	218,350
20.07.1987	150,000	1.00	Cash	368,350
01.09.1991	110,505	1.00	Bonus issue of three (3) shares for every ten (10) existing shares	478,855
01.09.1993	1,130,145	1.00	Bonus issue of approximately 2,359 shares for every 1,000 existing shares	2,000,000
	391,000	1.00	Consideration for the acquisition of lands	
07.07.1994	2,000,000	1.00	Cash	4,000,000
18.07.1994	1,000,000	1.00	Bonus issue of one (1) share for every four (4) existing shares	5,000,000
05.07.2006	366,000	1.00	Consideration for the acquisition of 30% equity interest in Ritma	5,366,000

(iii) **Substantial shareholder**

TSF is a wholly-owned subsidiary of Teo Seng.

(iv) **Subsidiaries and associated companies**

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

#### 4.4.2 TSPP

(i) **History and business**

TSPP was incorporated as a private limited company in Malaysia under the Act on 13 May 1994 under the name Barisan Data Sdn Bhd. On 21 July 1994, it assumed its present name. The company is principally involved in the manufacturing and marketing of paper egg trays. For details regarding the history of TSPP, kindly refer to Section 4.1.2 of this Prospectus.

(ii) **Share capital**

TSPP has an authorised share capital of RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which 1,500,000 shares have been issued and fully paid-up.

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

Date of allotment	No. of shares allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
13.05.1994	2	1.00	Cash (Subscriber shares)	2
22.11.1994	999,998	1.00	Cash	1,000,000
17.02.1995	500,000	1.00	Cash	1,500,000

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

(iii) **Substantial shareholder**

TSPP is a wholly-owned subsidiary of Teo Seng.

(iv) **Subsidiaries and associated companies**

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

#### 4.4.3 TFSM

(i) **History and business**

TFSM was incorporated as a private limited company in Malaysia under the Act on 19 December 1998 under the name Best Swallow Sdn Bhd. On 9 March 2000, it assumed its present name. The company is principally involved in the manufacturing and marketing of animal feeds. For details regarding the history of TFSM, kindly refer to Section 4.1.2 of this Prospectus.

(ii) **Share capital**

TFSM has an authorised share capital of RM2,000,000 comprising 2,000,000 ordinary shares of RM1.00 each, of which 1,000,000 shares have been issued and fully paid-up.

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

Date of allotment	No. of shares allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
19.12.1998	2	1.00	Cash (Subscriber shares)	2
21.06.2000	499,998	1.00	Cash	500,000
30.01.2004	500,000	1.00	Cash	1,000,000

(iii) **Substantial shareholder**

TFSM is a wholly-owned subsidiary of Teo Seng.

(iv) **Subsidiaries and associated companies**

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

#### 4.4.4 Ritma

(i) **History and business**

Ritma was incorporated as a private limited company in Malaysia under the Act on 24 September 2003 under its present name. The company is principally involved in the distribution of pet food, medicine and other related products. For details regarding the history of Ritma, kindly refer to Section 4.1.2 of this Prospectus.

(ii) **Share capital**

Ritma has an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up.

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

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

Date of allotment	No. of shares allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
24.09.2003	2	1.00	Cash (Subscriber shares)	2
24.06.2005	99,998	1.00	Cash	100,000

**(iii) Substantial shareholder**

Ritma is a wholly-owned subsidiary of Teo Seng.

**(iv) Subsidiaries and associated companies**

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

#### 4.5 INDUSTRY OVERVIEW

##### 4.5.1 The global economy

Global growth was strong in 2007, driven by above average growth in most industrial economies and buoyant growth in emerging market economies, despite moderation in the US economy, higher oil prices and the onset of financial market turbulence in the second half of the year. The economies of the China, India and other large emerging economies such as Brazil and Russia increased their contribution to global growth, spurred by strong consumption and rising investment activity. Record high commodity prices also buoyed growth in many resource producing economies. Benefiting from these trends, the strong growth momentum in the Asian region was further supported by rising domestic demand, which more than compensated for some moderation in electronics exports. In contrast, downside pressures on the US economy increased towards end-year, affected by the emergence of the subprime mortgage problem and further downturn in the US housing industry, with its spillover to the global financial markets.

While moderation is expected in the developed economies in 2008, the growth momentum is expected to be sustained in Asia and the other emerging economies. The growth outlook would be dependent on the length and depth of the US slowdown, and the extent of the impact from the financial market turbulence. Inflation is expected to remain elevated following sustained high oil and food prices.

In the US, the prospects are for further weakening in the economy. The housing market correction is expected to continue as housing supply outstrips demand, while at the same time, household spending is likely to be affected by weakening labour market conditions. However, net exports are expected to lend some support with the weakness in the US dollar and the continued demand arising from the relatively stronger growth in the rest of the world. The risk to the outlook of growth of the US economy has increased significantly arising from uncertainties on the extent of the impact of the problems in the credit market and its spillover effects on the broader economy. Constrained balance sheets and increasing risk aversion have already led to higher risk premiums and significant tightening of credit standards beyond housing loans, which would adversely impact the economy. Nevertheless, policy responses that have been put in place are, however, expected to provide some support to the economy. These include aggressive easing of interest rates and the fiscal stimulus package announced.

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

##### **GDP Growth, 2001-2008<sup>f</sup>**

Growth (%)	2001	2002	2003	2004	2005	2006	2007 <sup>e</sup>	2008 <sup>f</sup>
World GDP	2.5	3.1	4.0	5.3	4.8	4.9	4.7	3.7
US	0.8	1.6	2.5	3.9	3.1	2.9	2.2	1.0
Japan	0.2	0.3	1.4	2.7	1.9	2.2	2.0	1.0
Euro area *	1.9	0.9	0.8	2.0	1.5	2.8	2.6	1.5
China	8.3	9.1	10.0	10.1	10.4	11.1	11.4	10.5

Notes:

\* Indicates member countries of the Euro area (Austria, Belgium, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Portugal, Spain)

<sup>e</sup> estimate

<sup>f</sup> forecast

##### 4.5.2 The Malaysian economy

The outlook for the Malaysian economy in 2008 remains favourable. As a small and highly open economy, the outlook will be influenced by the current high degree of uncertainties in the global economic and financial environment, including the problems associated with the international credit markets and financial institutions. These uncertainties will have some impact on Malaysia, mainly through the trade and financial markets linkages.

The resilience of the Malaysian economy to weather a slowdown in the global economy has, however, strengthened over the years, due to a number of factors. First is the emergence of domestic demand as a key driver of growth. The strong economic growth of 6.3% in 2007 was achieved due to the robust expansion in domestic activities despite a moderation in external demand. Second, Malaysia's export markets are increasingly diversified. Thus, while global growth is expected to moderate in 2008 due mainly to slower growth in the US, and to a lesser extent, in Europe and Japan, the outlook for stronger economic growth in the Asian region and other emerging economies would support the export sector. Third, as a commodity producer, Malaysia will continue to benefit from high prices of crude oil, palm oil and rubber. In addition, the strong base in the commodity sector would further strengthen the linkages with downstream activities, including the resource-based industries which will continue to benefit from the robust domestic demand as well as demand from the regional economies.

Against this backdrop, the Malaysian economy is projected to expand by between 5% and 6% in 2008. While consumer and business sentiments could be affected by the prospects of a sharper than expected global economic slowdown and uncertainties in the international financial markets, the major underlying factors supporting domestic private sector activities are expected to remain generally intact in 2008. Private consumption will be supported by the steady growth in income, firm labour market conditions and high commodity prices.

##### **Annual Change in Real GDP by Sector, 2001-2008<sup>f</sup> (2000 prices)**

Growth (%)	2001	2002	2003	2004	2005	2006	2007 <sup>p</sup>	2008 <sup>f</sup>
GDP	0.5	5.4	5.8	6.8	5.0	5.9	6.3	5.0-6.0
Agriculture	-0.2	2.9	6.0	4.7	2.6	5.2	2.2	3.4
Manufacturing	-4.3	4.1	9.2	9.6	5.3	7.1	3.1	1.8
Mining and quarrying	-1.7	4.4	6.1	4.1	-1.3	-0.4	3.2	6.0
Construction	3.3	2.3	1.8	-0.9	-1.8	-0.5	4.6	5.5
Services	4.1	5.8	4.2	6.4	6.7	7.2	9.7	7.7

Notes:

<sup>p</sup> preliminary

<sup>f</sup> forecast



#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

##### 4.5.3 The agriculture sector in Malaysia

The agriculture sector expanded at a moderate pace of 2.2% in 2007, supported by food related activities, particularly livestock, paddy and vegetables. The strong performance in food related activities more than offset the weaker performance in key industrial crops, namely crude palm oil and rubber. Biological yield down-cycle and inconsistent weather patterns were the main contributory factors for the less favourable performance of these industrial crops during the year.

Growth in the agriculture sector is expected to strengthen to 3.4% in 2008, supported by the recovery in output of major industrial crops, namely palm oil and rubber. Amidst the biological yield up-cycle of palm trees, palm oil output is projected to trend higher supported by the recovery in yields. Similarly, output of rubber is expected to record a positive growth assuming normal weather conditions would support both yields and tapping activities. The projected high prices are also expected to stimulate tapping activity during the year, especially among the smallholders. Growth in the agriculture sector is also likely to emanate from activities related to food crops, such as livestock and fisheries, due to improved rearing methods and expansion in deepsea fishing.

The government continues to intensify its efforts to both deepen and broaden the agriculture base as the third engine of growth; as well as to encourage downstream activities so as to strengthen the linkages to the other sectors of the economy. In this context, government ministries and agencies have begun implementing plans to transform and modernise the agriculture sector through higher productivity, accelerated private sector involvement (including government-linked companies) and deeper linkages between the upstream activities and downstream processed food industries. These new activities would not only accentuate the growth potential of the economy and increase export earnings, but would also ensure that the rural communities involved in the agriculture sector enjoy a higher and more stable income.

##### 4.5.4 Commercial layer industry

###### 4.5.4.1 Product definition

The egg is a biological structure intended by nature for reproduction. It protects and provides a complete diet for the developing embryo, and serves as the principal source of food for the first few days of the chick's life. An average-sized egg weighs approximately 57 grams. Of this weight, the shell constitutes 11%; the white, 58%; and the yolk, 31%. Normally, these proportions do not vary appreciably for small or large eggs. Eggs are especially valuable as a source of protein. In fact, egg protein is used as the standard against which the quality of other food proteins is measured. One egg contains between six (6) grams and seven (7) grams of protein.

Brooding refers to a female chick between a day old and four (4) weeks. A pullet is a female chick between five (5) weeks and 17 weeks old, while a layer ranges between 18 weeks and 78 weeks.

(Source: IMRR)

###### 4.5.4.2 Industry overview

The commercial layer industry was basically an insignificant and meagre one about half a century ago. The production of eggs was a very simple one, with layer houses consisting of bamboo cages to house the layers. There was the presence of ubiquitous poultry diseases that hampered the growth and development of the industry. Since then, with the introduction of effective vaccines and superior breeds due to the rapid progress of veterinary research, the industry has experienced a phase of rapid growth and expansion since the early seventies. Today, the commercial layer industry is an important component of the total livestock industry in Malaysia. Chicken eggs are an important source of animal protein in the diet of the populace. It cuts across all racial lines; it has no religious restraints and is eaten by all races, except for the vegetarians.

#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

The commercial layer business has a relatively short gestation period as compared to many other agricultural ventures. It takes about 17 weeks for a day-old layer chick to reach maturity and fit for laying eggs. The length of time is also known as a cycle. Compared to either pork which takes between nine (9) months and ten (10) months, or beef (between one and a half (1.5) years and two (2) years), the cycle is an advantage to the commercial layer industry. Hence, the commercial layer farmers can alter their production in response to the profit level more rapidly. Poultry also has a more favourable feed conversion ratio relative to beef or pork. The feed conversion ratio refers to the quantity of feed required to produce a kilogram of poultry meat.

(Source: IMRR)

##### 4.5.4.3 Industry linkages and dependencies

The commercial layer industry is a component of the total livestock industry, which in return, is important in providing high quality protein and raw materials for the food processing industry in the manufacturing sector. The commercial layer industry is also very much dependent on the various industries in the agricultural sector. A large proportion of the animal feed utilised for poultry farms, especially corn and soya bean are imported, as the amount produced locally is not sufficient to meet local demand. Animal proteins such as soya bean, corn gluten meal, mineral sources and various micro-ingredients like vitamins, minerals and other additives are used to improve feed efficiency and growth. Other poultry farm supplies include replacement pullets, building materials and farm machinery. Replacement pullets and building materials can be sourced locally but most farm machineries such as close system breeding, feeding system, egg collection system, egg grading packing machines and farm packers are imported from overseas.

The industries to support the development of the commercial layer industry consist of the input industries and business support services. The input industries comprise the feedmills, veterinary pharmaceuticals and the farm machinery and equipment industries. Business support services include the feed ingredient suppliers and transportation companies as well as the wholesalers and retailers, both of which provide the essential services of bringing the chicken eggs from the farms to the consumers.

(Source: IMRR)

##### 4.5.4.4 Market trends

Presently, the commercial layer industry in Peninsula Malaysia is highly commercialised. It has gone through nearly five (5) decades of rapid technological, breeding, management and structural changes, resulting in the improvement of production efficiency. Among the contributory factors leading to the improvement in production efficiency are the implementation of intensive management systems, government support in areas such as R&D, modern veterinary and husbandry services, a liberal tax policy concerning the importation of equipment, machinery and other inputs and the supply of improved quality animal feeds. It has been transformed from a backyard subsistence farming and cottage industry to a fairly modern and efficient production system capable of meeting both domestic demand and the export market. The commercial layer industry has moved rapidly in the direction of large-scale production, with many farms employing varying degrees of automation.

Both improved technology and the development of sophisticated mechanised equipment were responsible for a shift from small farm flocks to larger commercial operations. It can also be traced back to the importation of improved genetic resources from overseas, in the form of better imported breeds. There is also the growing awareness of the need for economies of scale in farm operations, in view of the low unit value of the final product and consequently, the critical requirement to compete in large volumes in the market. While the number of evaporative cooling system and tunnel-ventilated, multi-tiered layer houses with automated feeding and egg collection is on the rise, along with expanding farm size; there is also a corresponding decrease in the number of farms and owners. This applies to both the open-house and CHS.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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The CHS for commercial layers started in 1997. The majority of the layer farms that use the CHS are those with a capacity of more than 100,000 layers. However, the CHS is also suitable for small-scale layer production. The cost to build automated CHS with multi-tier cages is higher than the open-house system. The cost is estimated at about 40% higher per bird. However, as the CHS is semi-automated, it assists in labour-cost savings. Due to the high investment cost and lack of technical know-how, the use of the CHS is still low. The CHS practiced in the farms has shown improvements in production, feed conversion rate and decrease in mortality as well as better fly and odour control. There were 43 layer closed-house farms in operation in 2007. The majority (12 farms or 27.9%) are located in Johor.

Process improvements and developments developed in layer farms such as the use of multi-tiered technology in both open-houses and closed-houses, have enabled development and efficiencies in the processing and packaging of eggs. The multi-layered houses are equipped with automated trolley feeders, nipple drinkers, egg collection and egg counting systems, feed weighing and manure belt systems.

Over the past decade, corporate enterprises have begun to enter the industry, also known as corporate integrators. Traditionally, there has been some form of informal or semi-formal production arrangements between the chicken farmers and the breeders, as well as the feedmillers. A fully-integrated poultry business is composed of breeder farms, hatcheries, broiler farms, layer farms, feedmills and egg processing plants. A corporate integrator is capable of being insulated against undue fluctuations in both supply and price, as well as to achieve cost efficiency derived from economies of scale and synergies. They have their own marketing and distribution arms.

Alternatively, the integrators provide feeds, DOCs and veterinary services to the contract farmers who in turn, are contracted to sell back the eggs at a mutually agreed price. The contract farmers receive all the assistance and advice from their integrators. Also, the contract farmers are assured of having buyers while the independent farmers need to work with the uncertainties of the market. This system assures the farmers of secured and prompt payment that was lacking under the old practice. Subsequently, the integrators would market the eggs to the wholesalers. The evolution of a vertically-integrated commercial layer egg production-processing industry over the past decade has resulted in greater increases in production efficiency due to the economies of scale achieved, compared to beef, mutton or pork.

Occasional market gluts in the past were due to the problems of over production and price instability. However, this affects the independent farmers more than the contract farmers. The demand versus supply ratio in the market is very volatile, as with most commodities. Non-tariff barriers like stringent biosecurity programs and quality control are placed on the importation of eggs, so as to nurture and protect the local industry.

As consumers are willing to pay a premium for specialty food products that have enhanced nutritional value, chicken eggs with specific nutritional characteristics to support or enhance key aspects of human health are being produced by the local industry. There is no exact definition of premium eggs as they cover a wide range of varieties. These eggs include omega-3 polyunsaturated acid enriched eggs, lower cholesterol eggs and vitamin E-enriched eggs. These functional or designer food confers a health benefit beyond that of substance, and they are food that when eaten regularly as part of a normal diet can provide a physiological or medical benefit by regulating the body functions to protect against or retard the progression of diseases.

In conjunction with this, there has been an emphasis on the improvement of nutrients of the eggs in recent years. For example, extensive research by the Malaysian Agricultural Research and Development Institute ("MARDI") has successfully improved the quality of eggs through formulating the feed ingredients to improve the egg composition in terms of fatty acids and other nutrients. The nutritional level of the eggs are enhanced further by increasing a type of polyunsaturated fatty acids called Omega-3, basically an ingredient found in fish oils and plant seeds such as soya bean, canola and flaxseed. Omega-3 eggs contain up to five (5) times more Omega-3 polyunsaturated fatty acids and up to four (4) times more Vitamin E compared to the generic eggs. This is through the formulation of a

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

vegetarian (no animal fats, meat or fish by-products) and an antibiotics-free layer chicken feed. Some of the commercial layer companies have also introduced their own premium eggs into the market.

*(Source: IMRR)*

##### 4.5.4.5 Market segments

There is very little product differentiation in the market as chicken eggs are basically treated as commodities. There is little, if any, product differentiation of generic eggs in the market. To the consumers, most eggs look alike on the shelves of the retail outlets, irrespective of which farms they come from.

The exception is the premium eggs, which the more well-informed consumers with higher disposable incomes may choose. However, the market segment for this product is relatively small compared to generic eggs. Based on the IMRR, for calendar year 2007, around 7.8 billion eggs were produced in Peninsula Malaysia, of which only 234.9 million were premium eggs.

##### 4.5.4.6 Reliance on and vulnerability to imports

###### (i) Reliance on imports

The market for chicken eggs in the country is not reliant upon imports as Malaysia is a net exporter of chicken eggs, as explained in Section 4.5.8 hereunder. Self-sufficiency for chicken eggs was first achieved in the country in 1969.

However, this is not the case for the feedmilling industry in Malaysia, which produces the feed for the layer chickens. The feedmilling industry in Malaysia imports approximately between 75% and 80% of its feed ingredients. Animal feed comprises about 70% of the total production costs for chicken meat and eggs production. In addition, the alternative formulation of animal feed using locally available materials and agricultural by-products is not well-developed. Similarly, almost all the veterinary pharmaceutical products are imported. Both basic and applied R&D on vaccines are mostly conducted in the advanced countries of the world like the US, France and Australia. Hence, the commercial layer industry is subjected to the varying prices of inputs in the world market.

*(Source: IMRR)*

###### (ii) Vulnerability to imports

Even though Malaysia is a net exporter of chicken eggs, market liberalisation under the ASEAN Free Trade Area and the World Trade Organisation exposes the commercial layer industry to competition from imported products. However, this threat is currently mitigated as Malaysia has included poultry products for inclusion into the Sensitive and Highly Sensitive Unprocessed Agricultural Products under the Common Effective Preferential Tariff ("CEPT") scheme. The Protocol on Special Arrangements for Sensitive and Highly Sensitive Unprocessed Agricultural Products signed in 1999 provides for a longer time frame for tariff reductions on these products.

*(Source: IMRR)*

##### 4.5.5 Market coverage

The commercial layer industry in Malaysia is very fragmented with many players and keen competition. Many of these players are involved in a wide range of complementary poultry-related and agriculture-based businesses.

For the calendar year 2007, the Group achieved an estimated market share of 6.5%. This is based on the number of chicken eggs produced in Peninsula Malaysia during that period of 7.8 billion, according to the IMRR.

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

##### **The Group's market share, Peninsula Malaysia, 2003-2007**

Year	Production (millions)	The Group's egg production (million)	The Group's market share (%)
2003	5,860	259.9	4.4
2004	6,871	330.3	4.8
2005	7,421	340.7	4.6
2006	7,238	411.9	5.7
2007	7,773	508.4	6.5

For the calendar year 2007, the Group was ranked number two (2) and five (5) in terms of market share ranking for generic and premium eggs respectively, on the basis of the production of chicken eggs in Peninsula Malaysia.

(Source: IMRR)

With rising awareness of healthier dietary consumption of food, egg producers are moving towards the production of eggs with lower cholesterol or higher Omega 3 contents. These improved egg varieties are packed in special casings and sold in more modern retail establishments. Competition within this market segment is more limited as not all the egg producers have the required biotechnical capabilities in the production of these products. The Group was in the number five (5) position in terms of the production of premium eggs in 2007. It captured around 8.7% of the premium eggs market in 2007. This is based on research conducted by the Independent Market Researcher with the ten (10) key industry participants in the chicken layer industry in Peninsula Malaysia.

Between January 2007 and December 2007, the company exported 80.8 million pieces of eggs worth RM16.7 million. All the eggs were exported to Singapore, and to a lesser extent, Hong Kong. The Group's poultry farms Layer 2, Layer 5 and one of the poultry farms of Success Century, are on the list of approved foreign layer farms accredited by the AVA, for the export of eggs into Singapore.

##### **4.5.6 Industry players and competition**

As disclosed in Section 4.5.5 above, the commercial layer industry in Malaysia is very fragmented with many players and keen competition from both public listed and private companies. However, commercial success in the layer industry is dependent upon not just the quality of the products but the scale of operations, as eggs are essentially a commodity item with very little product differentiation. Hence, a high production volume is the key factor in securing market position and maintaining profitability.

This would prove difficult to achieve for new players entering the market, especially with the presence of a number of established layer farmers in the local industry.

The Teo Seng Group counts itself among the top ten (10) producers of chicken eggs in Peninsula Malaysia, based on our ranking as the second (2<sup>nd</sup>) largest producer of chicken eggs in 2007. The other major industry players are:

Listed companies:	Subsidiaries of listed companies:	Private:
Huat Lai Resources Berhad	QL Feedingstuffs Sdn Bhd	Chuan Hong Poultry Farm Sdn Bhd
Lay Hong Berhad	Sinmah Poultry Farm Sdn Bhd	Lian Foo Poultry Farm Sdn Bhd
LTKM Berhad	FFM Farms Sdn Bhd	
TPC Plus Berhad		

It should be noted that most of the listed players in the commercial layer industry are well-diversified and involved in various other poultry-related and agriculture-based business activities, which may or may not be related to layer farming. The competitors which most closely resembles the Group in its business activities are LTKM Berhad and TPC Plus Berhad, which have operations that are mainly focused on layer farming and the sale of eggs.

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

##### 4.5.7 Government legislation, policies and incentives

###### 4.5.7.1 Legislations

The DVS is the sole agency under the Ministry of Agriculture entrusted with the mandate to control, prevent and eradicate endemic and emerging diseases through the implementation of nationwide disease control and eradication programs in the country. Under this initiative, improvements in productivity are envisaged through the application of technological advancements in production systems by adopting good biosecurity measures, in addition, to the use of effective vaccines.

The Animals Act, 1953 administered by the Director-General of DVS, provides powers of the veterinary authorities to enforce measures for preventing the introduction into, and the spreading within, the country, of animal diseases, for the control of the movement of animals into, within and from the country, for the control and slaughter of animals, for the prevention of cruelty to animals and for measures pertaining to the general welfare, conservation and improvement of animals in the country. Officers from the DVS are authorised to enter and examine any land, building or premises to ascertain whether any animal or bird is suffering from any disease.

The DVS also issues licenses permitting the holder of such licence to possess live cultures or vaccines and to inoculate animals or birds with such cultures or vaccines. The scheduled substance for use in animal production is regulated under the Poisons Act, 1952 (administered by the Director-General of Health), Sale of Drugs Act 1952 (administered by the Director-General of Health) and Pesticides Act 1974 (administered by the Director-General of Agriculture).

The present provisions in the various veterinary and related laws have enabled the veterinary authority in the country to specify and enforce veterinary regulations pertaining to animal health and food quality towards meeting the standards of measures in line with the World Trade Organisation Agreement on Sanitary and Phytosanitary Measures, as required by the country's trading partners. This Agreement covers any kind of measures with the purpose of protecting human health from food-borne risks and diseases carried by animals and protecting animals from risks in feedstuff. It recognises the right of governments to restrict trade in order to protect health and provides the basic rules against which the measures will be judged in case of a trade dispute. The existing laws and regulations have enabled the DVS to initiate a more comprehensive program to regulate the farming practices, disease control, product handling and food quality towards contributing to the production of safe quality food for both the domestic and export markets.

Import permits from the DVS are required for all shipments of poultry products into the country. This must be applied by the importer before the consignment arrives. Every bird to be imported may be required to undergo an examination by the veterinary authority either at the place of arrival or at any such place as the veterinary authority may appoint. If such a bird is considered to be likely to have been exposed to infection with any disease, the veterinary authority may subject it to such biological or other test he may think necessary. Similarly, an export permit is needed before any shipment of birds abroad. Every bird which is about to be exported may be required to undergo an examination by the DVS.

A summary of the licenses, permits and approvals under the DVS are as follows:

- License to import/export animals
- License to import/export of birds and eggs
- Permit for Importation of animal carcasses and others
- Veterinary Health Certificate
- Declaration of Disease-Free State
- Quarantine Certificate
- Registration of Operator
- Registration of Cattle
- Permit for Religious/Customary Slaughter
- Slaughter Permit
- Inter-State Movement Permit
- Emergency Slaughter Permit

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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Feedmillers are required to possess a Type B Licence for the storage and use of any feed additive of an antibiotic nature. This applies irrespective they have a registered veterinarian or not. Under the terms of licensing, any antibiotic used at the feedmill are to be kept as a poison. An inventory has to be conducted to determine its usage and records to be kept at the disposal of the respective authorities for routine inspection.

Both feedmill and paper manufacturers are also subjected to the Occupational Safety and Health Act, 1994. This Act is enforced by the DOSH under the Ministry of Human Resources. Under this Act, the employer has a duty to protect the safety, health and welfare of all his employees. The Act requires the employer to:

- provide and maintain plant or equipment and systems of work that are safe and without risks to health;
- make arrangements for ensuring safety and absence of risks to health in connection with the use or operation, handling, storage and transport of plant;
- provide information, instruction, training and supervision as is necessary to ensure the safety and health of the workers; and
- maintain his place of work to ensure it is safe and without risks to health.

The employer shall also ensure that no worker shall be employed at any machine or in any process, being a machine or any process liable to cause bodily injury, unless he has been fully instructed as to the dangers likely to arise in connection therewith and the precautions to be observed. The worker must received sufficient instruction in work at the machine or process; or is under adequate supervision by a person who has the knowledge and experience of the machine or process.

Lastly, all machinery in the feedmills and paper tray factories shall be inspected by an inspector from the Factories and Machinery Department, or any other persons as may be approved in writing by the Ministry, under the Factories and Machinery Act, 1967. This Act is also administered by the DOSH under the Ministry of Human Resources. It is also the duty of the occupier of the factory to report to the inspector of any structural change or name change as well as the nature of work in the factory.

(Source: IMRR)

##### 4.5.7.2 Incentives

As in the manufacturing sector, companies producing promoted products or engaged in promoted activities such as livestock farming are eligible for pioneer status. A pioneer status company enjoys a partial exemption from income tax. It pays tax on 30% of its statutory income for five (5) years, commencing from its production day (defined as the day of first sale of the agricultural produce). Applications received from companies located in the promoted areas of Malaysia, that is, the states of Sabah, Sarawak and the designated Eastern Corridor of Peninsula Malaysia will enjoy a 100% tax exemption on their statutory income during their five-year exemption period. The Eastern Corridor of Peninsula Malaysia covers the states of Kelantan, Terengganu and Pahang as well as the district of Mersing in the state of Johore. Effective 2 September 2006, the state of Perlis is also declared as one of the promoted areas and companies undertaking promoted activities will be eligible for incentives presently given to these areas.

As an alternative to the pioneer status, companies producing promoted products or engaged in promoted activities can apply for an investment tax allowance. A company granted this is eligible for an allowance of 60% on its qualifying capital expenditure incurred within five (5) years from the date on which the first qualifying capital expenditure is incurred. Companies can offset this allowance against 70% of their statutory income in the year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised. The remaining 30% of the statutory income is taxed at the prevailing company tax rate. Companies located in the promoted areas, that is, the states of Sabah, Sarawak, Perlis and the designated Eastern Corridor of Peninsula Malaysia, will enjoy an allowance of 100% on the qualifying capital expenditure incurred within a period of five (5) years. The allowance can be utilised to offset against 100% of the statutory income for each year of assessment.

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

Persons or companies engaged for at least 12 months in the production of essential food such as livestock and any other activities approved by the Ministry of Finance can enjoy the Reinvestment Allowance. The qualifying capital expenditure includes expenditure incurred on the provision of plant and machinery used for animal farming, as well as the construction of access roads, including bridges, construction or purchase of buildings (including those provided for the welfare of people or as living accommodation), and structural improvements which are used for animal farming. Such roads, bridges, buildings, structural improvements on land and other structures should be on land forming part of the land used for the purpose of animal farming.

The Reinvestment Allowance is in the form of an allowance of 60% of the qualifying capital expenditure incurred within a period of 15 years beginning from the year the first reinvestment is made. The allowance can be offset against 70% of the statutory income in the year of assessment. Unutilised allowances can be carried forward to the following years until fully utilised. Companies that undertake reinvestment projects in the promoted areas, that is, the states of Sabah, Sarawak, Perlis and the designated Eastern Corridor of Peninsula Malaysia, can offset the allowance fully against their statutory income for the year of assessment.

To promote modernisation and the utilisation of environmentally-friendly practices in the agricultural sector, both chicken and duck rearers who reinvest for the purpose of shifting from the open-house system to the CHS will be eligible for reinvestment allowance for a period of 15 consecutive years commencing from the first year the reinvestment is made. This incentive is given on condition that the minimum rearing capacity of the CHS is as follows:

- 20,000 broiler chicken/broiler ducks per cycle; or
- 50,000 layer chickens/layer ducks per cycle; or
- 20,000 parent or grandparent stock of chickens/ducks per cycle.

The incentive for broiler chickens/broiler ducks and layer chickens/layer ducks is effective from the year of assessment 2003 while the incentive for the parent/grandparent stock of chickens/ducks is effective from the year of assessment 2005.

A person or company carrying on an agricultural activity can claim capital allowances and special building allowances under the Income Tax Act 1967 for certain capital expenditure. The capital expenditure which qualifies includes expenditure incurred on the provision of plant and machinery used for animal farming, as well as the construction of access roads, including bridges, construction or purchase of buildings (including those provided for the welfare of people or as living accommodation), and structural improvements which are used for animal farming. Such roads, bridges, buildings, structural improvements on land and other structures should be on land forming part of the land used for the purpose of animal farming.

(Source: IMRR)

##### 4.5.7.3 Policies

In order to enhance industrial linkages and increase both productivity and competitiveness, the government has established R&D institutes in the agricultural sector. Specifically, MARDI, which was established in 1969, plays a key role in the developing, transferring and commercialisation of leading edge technologies, competencies and services in the livestock industry.

Given the vulnerability of the country's food supply to external factors, the government has recognised the importance of the agricultural sector as a provider of food. It is not in the long-term interest of the country to be increasingly dependent on external sourcing for food, as there is an uncertainty in long-term international supply. Towards achieving this end, the NAP3 is focussing on new approaches to increase the productivity and competitiveness, enhance food security and deepen linkages with the other sectors of the economy. It will enhance domestic food production and strategic sourcing to ensure adequate supply and accessibility of safe, nutritious and high quality food at affordable prices.



#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

The overriding objective of the NAP3 is the maximisation of incomes through the optimal utilisation of resources in the sector. This includes maximising the agricultural sector's contribution to both national income and export earnings as well as maximising the income of producers. Under the NAP3, value added in the agricultural sector is projected to expand at 3.1% per annum during the period, driven principally by vegetables, fruits, fish and livestock production.

The Second Industrial Master Plan ("IMP2") and the 9MP have also identified food processing as a source of future growth for the country. An important thrust for developing the economy is to continue to identify new sources of growth which will lead to greater diversification of both products and markets. In this context, the agro-based industries like fisheries, livestock, fruits, vegetables and floriculture, will emphasise the development of value added products through greater linkages with further downstream activities. The key elements of this strategy are to increase productivity, increasing agricultural output for integration with manufacturing activities and the development of both the domestic and export markets.

The agriculture sector will be revitalised to become the third engine of growth under the 9MP. This includes large-scale commercial farming and the wider application of technology as well as the production of high quality and value added products. In this context, private sector-led commercial chicken and commercial layer production will be actively encouraged to adopt modern approaches and contract farming on a large-scale basis. Both vertical and horizontal integration will also be encouraged so as to further develop the value chain. In line with the industrialising economy, the adoption of technology, including automation in intensive-livestock production, processing, product storage, transportation and handling will be further promoted. Biosecurity measures will also be further enhanced to reduce risks and losses under the 9MP.

*(Source: IMRR)*

##### 4.5.7.4 Export health certification to Singapore

Almost all the exported chicken eggs from Malaysia are sent to Singapore. As the national food safety authority in Singapore, the AVA is empowered to provide the required import permit. Each consignment of eggs must be derived from a single farm in Malaysia, and accompanied by a Veterinary Health Certificate issued by the DVS of Malaysia. The certificate must be dated within seven (7) days of import of the consignment. Upon arrival, the eggs will be subjected to inspection by the authorised officers of the AVA. The primary requirement is that the eggs must be clean and fresh. The eggs may be subjected to microbiological examination before release, at the discretion of the Director-General of the AVA. In addition, sampling for laboratory analysis may be required.

The eggs must be unfertilised and derived from layer flocks kept in a farm accredited for the imports of eggs into the republic by the AVA. The farms must have been free from the pathogenic avian influenza for the past six (6) months prior to export. In addition, they must also be diagnosed free from Salmonella Enteritidis, and no detected cases of velogenic Newcastle disease, infectious bronchitis, infectious laryngotracheitis, Avian encephalomyelitis, infectious bursal disease and chronic respiratory disease due to Mycoplasma gallisepticum over the past three (3) months.

*(Source: IMRR)*

##### 4.5.8 Demand and supply conditions

Based on the IMRR, Malaysia is a net exporter of chicken eggs. Dividing the estimated local production and the estimated total consumed, the rate of self-sufficiency can be obtained. When the rate of self-sufficiency stands at 100%, this means that the demand and supply situation is at equilibrium in the domestic market. Hence, the excess supply has to be exported.

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

Self-sufficiency for chicken eggs was first achieved in the country in 1969. Subsequently, it decreased during the next decade until it regained its status in 1980. This was principally due to the efforts of the local layer farmers, who were quick to adapt to new technologies and management approach, as well as strong government support in the production of domestic food.

##### Statistic on chicken eggs, Peninsula Malaysia

Year	Production (millions)	Consumption (millions)	Self-Sufficiency Levels (%)
1998	5,975	5,494	108.7
1999	5,687	5,199	109.4
2000	5,810	4,895	118.7
2001	5,627	5,021	114.8
2002	5,667	4,887	119.0
2003	5,860	5,057	120.3
2004	6,871	5,488	112.0
2005	7,421	6,567	113.0
2006	7,238	Not available	Not available
2007	7,773	7,362	105.6

The production of chicken eggs had declined slightly since the onset of the Asian financial crisis in 1997/1998. However, it has been on an increasing trend since 2002. On the other hand, the consumption of chicken eggs recovered in 2003, after experiencing some contractions in the previous years.

The production of eggs remained resilient in Malaysia despite the outbreak of the Avian flu in many countries around the world in 2003. This was due to the expansion of the CHS. Although the Avian flu was detected in Kelantan in August 2004, there was a strong increase in consumption in that year.

Being a net exporter of chicken eggs, the historical export volume of eggs produced in Peninsula Malaysia from 2003 to 2007 is as follows:

Year	Quantity (Million Eggs)	Percentage Increase (%)
2003	807.62	-
2004	717.89	-11.1
2005	866.37	20.7
2006	930.90	7.5
2007	833.10	-10.5

The detection of the Avian flu in Kelantan in August 2004 caused the Singaporean Authorities to ban the import of eggs from Malaysia for slightly over a month. The discovery also prompted the other major markets such as Japan, the European Union and Hong Kong to ban all poultry and poultry products from Malaysia. There was also the strict curtailment of poultry movement between different states in the country, in order to prevent the transmission of the flu. This had an impact on the export of eggs recorded in that year. In September 2004, Singapore resumed imports of poultry and poultry products from certified plants from Malacca and Johor.

(Source: IMRR)

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### 4.5.9 Substitute products and services

Eggs are frequently used in both sweet and savoury dishes as a source of protein as well as to bind the other ingredients in a recipe together. Sometimes the egg yolk is used separately from the egg white (or albumen). According to the Food and Agriculture Organisation of the United Nations, egg protein is of a higher quality than all other food proteins, and it provides significant amounts of several vitamins and minerals, including vitamin A, riboflavin, folic acid, vitamin B6, vitamin B12, chlorine, iron, calcium, phosphorous and potassium. Chicken eggs are also one of the least expensive single-food sources of complete protein, which is essential to life, health and well being.

A duck egg can be a substitute for a chicken egg for certain cooking purposes. However, a duck egg is larger and oilier. The flavour is also different. During baking, chicken eggs are usually used for leavening, or lightness, and to act as a binder. In some recipes, chicken eggs are beaten or whipped, incorporating air into the product and decreasing the product's density. The type of baked product determines whether the cook can leave out the chicken egg entirely, or whether he needs to replace it with another ingredient to perform the function of the chicken egg in the original recipe. If the chicken eggs are omitted in a recipe, the cook can add a tablespoon or two of additional liquid like soya milk, fruit juice or water, just to help the product retain its original moisture content. Lastly, in baked goods that are light and have a fluffy texture, the cook can replace chicken eggs with an ingredient that provides some lift.

*(Source: IMRR)*

We believe that the chicken egg is a unique product and ingredient, with a diverse range of applications. For example, it may be eaten on its own, boiled, half-boiled, scrambled or fried, or it may be used for various purposes as an ingredient for various recipes.

Whilst the role of the chicken egg in certain recipes may be filled by other substitutes, there is essentially no substitute for the egg as a whole, with its diversity of application and its affordability as a single-food source of complete protein and other nutrients.

##### 4.5.10 Prospects and outlook of the industry

Increases in disposable income undoubtedly augment food purchases. In particular, it has been noticed that in countries with rapidly growing incomes, a higher proportion of food spending is spent on purchases such as meat and eggs. This generates new growth market opportunities for the suppliers of these products. However, consumers in Malaysia in general are also price-sensitive and look for value-for-money products. As a result, the commercial layer industry is increasingly challenged to produce new innovative products at lower costs without compromising on the quality.

The commercial layer industry has progressed well into commercial enterprises with a considerable degree of sophistication, especially with the entry of corporate players. Over the years, the integrators have been increasing their market shares, pushing out the smaller non-integrated and independent layer farms. There is a high standard of veterinary services, R&D services and disease control programs in the industry in Malaysia. With the possible exception of Singapore, the industry in Malaysia has a higher production technology than the other neighbouring countries. The government is also playing a critical role by the enhancement of laboratory capabilities in disease surveillance and monitoring, as well as identification, treatment and prevention.

As chicken eggs are a staple food in the country, a high level of self-sufficiency is critical for national security. The potential to further develop the commercial layer industry to cater for both the domestic and export markets is bright. With increasing per income, the consumption of chicken eggs is anticipated to increase further over the foreseeable future. During the 9MP, the self-sufficiency of eggs is expected to increase slightly from 113% in 2005 to reach 115% in 2010. This means that more eggs have to be exported as supply exceeds demand in the country.

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

The global market for chicken eggs is highly competitive, with both price and quality being of paramount importance. How much the industry can export in the future is dependent on how resilient and adaptable it is to changes in the major export market, Singapore. There is also the Singapore government's encouragement to increase the population in the republic, from the present 4.4 million to 6.5 million in approximately 20 years' time. Responsiveness to expectations of quality and safety of chicken products and constant awareness of competition from the other neighbouring countries will help to ensure a share of the market.

(Source: IMRR)

#### 4.6 MAJOR CUSTOMERS

Our Group's major customers (i.e those individually contributing 10% or more of our Group's revenue for each of the last three (3) FYE 31 March 2008) are as follows:

Name of customer	Country	Length of relationship Year	Contribution to Group's revenue (%)		
			FYE 31 March 2006	FYE 31 March 2007	FYE 31 March 2008
Success Century	Malaysia	3	-	11.06	13.18

Upon the completion of the acquisition of Success Century, Success Century will be a subsidiary of our Group. Hence, we are not dependent upon our existing major customer.

#### 4.7 MAJOR SUPPLIERS

Our Group's major suppliers (i.e those individually contributing 10% or more of our Group's raw materials and subcontracting costs for each of the last three (3) FYE 31 March 2008) are as follows:

Name of supplier	Country	Length of relationship Year	Contribution to Group's purchases (%)		
			FYE 31 March 2006	FYE 31 March 2007	FYE 31 March 2008
Success Century	Malaysia	3	5.44	15.40	21.89
Gymtech Feedmill (Malacca) Sdn Bhd	Malaysia	> 15	2.81	28.23	14.25
Ghee Huat Co Pte Ltd	Singapore	1	-	-	12.10
Cargill (Malaysia) Sdn Bhd	Malaysia	6	11.56	13.04	11.58

Our Group is not dependent on any single major supplier for raw material supplies. Upon the completion of the acquisition of Success Century, Success Century will be a subsidiary of our Group. The details on the possible risk of dependency on LHH for sourcing of DOC and raw materials is set out in Section 3.6 of this Prospectus.

#### 4.8 FUTURE PLANS AND OUTLOOK

Going forward, the goal of our Group is to eventually emerge as the single largest player in the local layer farming industry, and penetrate further the overseas market, especially Singapore.

Our Group's future plans in this regard will be underpinned by its two key strategies of increasing its production capacity through additional farms, either through internal growth or strategic acquisitions,

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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and achieving further integration as an integrated layer farming group with its in-house support activities.

Our Group plans to further increase its market share in the domestic market by being more competitive, using its inherent farm knowledge management skills and short learning curve in layer egg production. In addition, we are also planning to increase our exports of chicken eggs to Singapore, as our farms lie in close proximity to the republic. This provides us with a competitive edge vis-à-vis other farms in the other states of the Peninsula as transportation costs also play a key role in determining the prices of eggs in the market. This has also been exacerbated by the rising price of fuel. Our Group's premium eggs, "Happy Eggs" will also be exported to Singapore, taking advantage of the higher purchasing power and higher awareness of the benefits of premium eggs among the consumers in the republic.

There are plans in the pipeline to expand the existing farms. In this context, an additional egg grading machine has been purchased to cope with the scheduled expanding production. It is located at our second CPS with a grading capacity of 120,000 eggs per hour and is aimed mainly at the market in Singapore. Through further expansion in production, it will be able to achieve higher economies of scale.

Backward integration encompasses the future expansion of the paper egg tray plant, through the commissioning of an additional paper egg tray forming machine. The increased production of paper egg trays is to cater for both internal usage as well as external customers. In return, the external customers include both the domestic and export markets. The product will be exported to countries such as Australia, New Zealand, Taiwan, Singapore and Thailand.

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## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL

### 5.1 PROMOTERS

#### 5.1.1 Shareholdings of our promoters

Our promoters and their shareholdings in our Company before and after the IPO are as illustrated below:

Name	Nationality/ Place of incorporation	Designation	Before IPO <sup>1</sup>		After IPO <sup>1</sup>	
			No. of Shares '000	%	No. of Shares '000	%
AVSB	Malaysia	-	144,246	89.4	102,246	51.1
LHH	Malaysia	-	3,128	1.9	3,128	1.6
Na Hap Cheng	Malaysian	Director of TSF and Group General Manager	602	0.4	982	0.5
Nam Yok San	Malaysian	Managing Director	571	0.4	951	0.5
Na Yok Chee	Malaysian	Executive Director	571	0.4	951	0.5
Nam Hiok Yong	Malaysian	General Manager of TSPP	421	0.3	445	0.2
Nam Hiok Joo	Malaysian	General Manager of TSFM and Managing Director of Ritma	421	0.3	671	0.3

**Notes:**

1. Deemed interest by virtue of its shareholding in AVSB pursuant to Section 6A of the Act.  
<sup>^</sup> Based on the issued and paid-up share capital immediately before the Public Issue of 161,390,000 Shares.  
<sup>^^</sup> Based on the assumption that their respective entitlements to the Pink Form Shares are fully taken up by the respective parties.

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## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (*Cont'd*)

### 5.1.2 Profiles of our promoters

The profiles of our individual promoters are as disclosed under Sections 5.3.1 and 5.5.1 of this Prospectus. The profiles of our corporate promoters are as disclosed below:

#### (i) AVSB

##### *History and principal activity*

AVSB was incorporated on 12 April 2006 in Malaysia under the Act as a private limited company and is principally involved in investment holding. As at the LPD, the share capital of AVSB is as follows:

	Ordinary shares of RM1.00 each		RCPS of RM0.01 each	
	No. of shares	RM	No. of shares	RM
<b>Authorised</b>	100,000	100,000	40,000,000	400,000
<b>Issued and fully paid-up</b>	432	432	20,300,000	203,000

##### *Board of Directors*

The Board of Directors of AVSB, and their respective shareholdings therein as at the LPD are as follows:

Directors: Designation	< -----Direct----- >		< -----Indirect----- >	
	No. of shares	%	No. of shares	%
Yaw Hoo Chow: Director	-	-	-	-
So Chean Chin: Director	-	-	-	-

##### *Substantial shareholders*

The substantial shareholders of AVSB, and their respective shareholdings therein as at the LPD are as follows:

##### Ordinary shares of RM1.00 each:

Shareholder	< -----Direct----- >		< -----Indirect----- >	
	No. of shares	%	No. of shares	%
LHH	221	51.2	-	-
Na Hap Cheng	42	9.8	-	-
Nam Yok San	40	9.3	-	-
Na Yok Chee	40	9.3	-	-
Nam Hiok Yong	30	6.9	-	-
Nam Hiok Yok	29	6.9	-	-
Nam Hiok Joo	30	6.9	-	-
LHM	-	-	221 <sup>^</sup>	51.2
Datin Heng Ah Pee	-	-	221 <sup>*</sup>	51.2
Datin Chua Ah Nia @ Chua Kah Nui	-	-	221 <sup>*</sup>	51.2

##### *Notes:*

<sup>^</sup> Deemed interest by virtue of its shareholding in LHH, pursuant to Section 6A of the Act.

<sup>\*</sup> Deemed interest by virtue of her shareholding in LHM, pursuant to Section 6A of the Act.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

**RCPS:**

Shareholder	< -----Direct----- >		< -----Indirect----- >	
	No. of RCPS	%	No. of RCPS	%
LHH	10,353,170	51.0	-	-
Na Hap Cheng	1,989,366	9.8	-	-
Nam Yok San	1,889,898	9.3	-	-
Na Yok Chee	1,889,898	9.3	-	-
Nam Hiok Yong	1,393,123	6.9	-	-
Nam Hiok Yok	1,391,989	6.9	-	-
Nam Hiok Joo	1,392,556	6.9	-	-
LHM	-	-	10,353,170 <sup>^</sup>	51.0
Datin Heng Ah Pee	-	-	10,353,170 <sup>*</sup>	51.0
Datin Chua Ah Nia @ Chua Kah Nui	-	-	10,353,170 <sup>*</sup>	51.0

**Notes:**

<sup>^</sup> Deemed interest by virtue of its shareholding in LHH, pursuant to Section 6A of the Act.

<sup>\*</sup> Deemed interest by virtue of her shareholding in LHM, pursuant to Section 6A of the Act.

**(ii) LHH**

***History and principal activity***

LHH was incorporated on 10 October 1979 in Malaysia under the Act and was listed on the Main Board of Bursa Securities on 29 October 1990.

The company is principally an investment holding company. It also derives income from the rental of its freehold land and the provision of management services. Through its subsidiaries, the company is also involved in:

- Manufacturing and trading of food products;
- Poultry farming, breeding, processing and marketing of chickens and related products;
- Plantation owner, housing development, oil palm cultivation, property development and real properties; and
- Other activities, including trading in health and beauty products, multilevel marketing of consumer products and the operation and management of warehouses.

As at the LPD, the share capital of LHH is as follows:

	< -----Ordinary shares of RM1.00 each----- >	
	No. of shares	RM
<b>Authorised</b>	300,000,000	300,000,000
<b>Issued and fully paid-up</b>	166,725,000	166,725,000



**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

***Board of Directors***

The Board of Directors of LHH, and their respective shareholdings therein as at the LPD are as follows:

<b>Directors: Designation</b>	<b>&lt; -----Direct----- &gt;</b>		<b>&lt; -----Indirect----- &gt;</b>	
	<b>No. of shares</b>	<b>%</b>	<b>No. of shares</b>	<b>%</b>
Datuk Lau Chong Wang: Chairman & Managing Director	66	^	77,683,966*	46.6
Dato' Lau Bong Wong: Non-Executive Director	100,000	0.1	77,734,966*	46.6
Dato' Lau Eng Guang: Executive Director	2,007,800	1.2	2,447,600*	1.5
Tan Sri Lau Tuang Nguang: Executive Director	-	-	93,000*	0.1
Major General (Rtd) Datuk Haji Esa Bin Ahmad: Independent Non-Executive Director	-	-	-	-
Tan Sri Datuk Paduka Dr Hajjah Saleha Binti Mohamad Ali: Independent Non-Executive Director	-	-	-	-
Lim Meng Bin: Executive Director	-	-	-	-
Ng Lee Sen: Independent Non-Executive Director	-	-	-	-

**Notes:**

^ Negligible.

\* Deemed interest pursuant to Section 134 of the Act through their spouses or/and children.

***Substantial shareholders***

The substantial shareholders of LHH, and their respective shareholdings therein as at the LPD are as follows:

<b>Shareholder</b>	<b>&lt; -----Direct----- &gt;</b>		<b>&lt; -----Indirect----- &gt;</b>	
	<b>No. of shares</b>	<b>%</b>	<b>No. of shares</b>	<b>%</b>
LHM	77,644,966	46.6	-	-
Datin Heng Ah Pee	-	-	77,644,966*	46.6
Datin Chua Ah Nia @ Chua Kah Nui	-	-	77,644,966*	46.6

**Note:**

\* Deemed interest by virtue of her shareholding in LHM, pursuant to Section 6A of the Act.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL**  
(Cont'd)

**5.1.3 Promoters' directorships and substantial shareholdings in other public corporations for the past two (2) years**

Save as disclosed below, none of our promoters has any directorship and/or substantial shareholdings (5% or more of the issued and paid-up share capital) in any other public corporations for the past two (2) years up to the LPD.

Name	Company	Directorship	Date appointed/resigned	As at the LPD	
				Direct	Indirect
				No. of shares '000	%
LHH	Emivest Berhad	-	-	24,000	20.0

**5.1.4 Changes in the shareholdings of our promoters for the past three (3) years**

Save as disclosed below, there has been no change in our promoters' shareholdings since our Company's incorporation up to the LPD are as follows:

	After TSF Acquisition	
	Direct	Indirect
	No. of Shares '000	%
AVSB	144,246	89.4
LHH	3,128	1.9
Na Hap Cheng	602	0.4
Nam Yok San	571	0.4
Na Yok Chee	571	0.4
Nam Hiok Yong	421	0.3
Nam Hiok Joo	421	0.3

**Note:**  
1. Deemed interest by virtue of its shareholding in AVSB pursuant to Section 6A of the Act.

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 5.2 SUBSTANTIAL SHAREHOLDERS

#### 5.2.1 Shareholdings of substantial shareholders

Our substantial shareholders (holding 5% or more of the issued and paid-up share capital) and their shareholdings in our Company before and after the IPO are as illustrated below:

Substantial shareholders	Nationality/Place of Incorporation	Designation	-----Before IPO-----		-----After IPO-----					
			Direct	Indirect	Direct	Indirect				
			No. of Shares '000	%	No. of Shares '000	%	No. of Shares '000	%		
AVSB	Malaysia	-	144,246	89.4	-	-	102,246	51.1	-	-
Dr ' Aidawani	Malaysian	Director of Ritma	9,173	5.7	-	-	18,323	9.2	-	-
Dato' Dr Ma'amor	Malaysian	Director of Ritma	1,835	1.1	-	-	18,285	9.1	-	-
LHH	Malaysia	-	3,128	1.9	144,246 <sup>1</sup>	89.4	3,128	1.6	102,246 <sup>1</sup>	51.1
LHM	Malaysia	-	-	-	147,374 <sup>2</sup>	91.3	-	-	105,374 <sup>2</sup>	52.7
Datin Heng Ah Pee	Malaysian	-	-	-	147,374 <sup>3</sup>	91.3	-	-	105,374 <sup>3</sup>	52.7
Datin Chua Ah Nia @ Chua Kah Nui	Malaysian	-	-	-	147,374 <sup>3</sup>	91.3	-	-	105,374 <sup>3</sup>	52.7

#### Notes:

<sup>1</sup> Based on the issued and paid-up share capital immediately before the Public Issue of 161,390,000 Shares.

<sup>2</sup> Based on the assumption that their respective entitlements to the Pink Form Shares are fully taken up by the respective parties.

1. Deemed interest by virtue of its shareholding in AVSB, pursuant to Section 6A of the Act.

2. Deemed interest by virtue of its shareholding in LHH, pursuant to Section 6A of the Act.

3. Deemed interest by virtue of her shareholding in LHM, pursuant to Section 6A of the Act.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL**  
(*Cont'd*)

**5.2.2 Substantial shareholders' directorships and substantial shareholdings in other public corporations for the past two (2) years**

Save as disclosed below, none of our other substantial shareholders has any directorship and/or substantial shareholdings (5% or more of the issued and paid-up share capital) in any other public corporations for the past two (2) years up to the LPD.

Name	Company	Directorship	Date appointed/resigned	As at the LPD		No. of shares '000	%	No. of shares '000	%
				Direct	Indirect				
LHH	Eminvest Berhad	-	-	24,000	20.0	-	-	-	-
LHM	LHH	-	-	77,645	46.6	-	-	-	-
Datin Heng Ah Pee	Eminvest Berhad	-	-	-	-	24,000 <sup>1</sup>	20.0	24,000 <sup>1</sup>	20.0
Datin Chua Ah Nia @ Chua Kah Nui	LHH	-	-	-	-	77,645 <sup>2</sup>	46.6	77,645 <sup>2</sup>	46.6
	Eminvest Berhad	-	-	-	-	24,000 <sup>2</sup>	20.0	24,000 <sup>2</sup>	20.0
	Eminvest Berhad	-	-	100	0.1	-	-	77,645 <sup>2</sup>	46.6
	Eminvest Berhad	-	-	-	-	24,000 <sup>2</sup>	20.0	24,000 <sup>2</sup>	20.0

**Notes:**

1. Deemed interest by virtue of its shareholding in LHH, pursuant to Section 6A of the Act.
2. Deemed interest by virtue of her shareholding in LHM, pursuant to Section 6A of the Act.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL**  
(Cont'd)

**5.2.3 Changes in the shareholdings of our substantial shareholders for the past three (3) years**

Save as disclosed below, there has been no change in our substantial shareholders' shareholdings since our Company's incorporation up to the LPD are as follows:

	-----After TSF Acquisition-----		-----Indirect-----	
	Direct-----	-----	-----	-----
	No. of Shares '000	%	No. of Shares '000	%
AVSB	144,246	89.4	-	-
Dr ' Aidawani	9,173	5.7	-	-
Dato' Dr Ma ' amor	1,835	1.1	-	-
LHH	3,128	1.9	144,246 <sup>1</sup>	89.4
LHM	-	-	147,374 <sup>2</sup>	91.3
Datin Heng Ah Pee	-	-	147,374 <sup>3</sup>	91.3
Datin Chua Ah Nia @ Chua Kah Nui	-	-	147,374 <sup>3</sup>	91.3

**Notes:**

1. Deemed interest by virtue of its shareholding in AVSB, pursuant to Section 6A of the Act.
2. Deemed interest by virtue of its shareholding in LHH, pursuant to Section 6A of the Act.
3. Deemed interest by virtue of her shareholding in LHM, pursuant to Section 6A of the Act.

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## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (*Cont'd*)

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### 5.3 DIRECTORS

#### 5.3.1 Profile

**Lau Jui Peng**, aged 37, was appointed as the Non-Executive Chairman of the Company on 19 June 2008. He is one of the representatives of LHH on the Board of Directors of the Company.

Mr Lau obtained a Bachelor of Science in Business Administration majoring in marketing from Hawaii Pacific University, United States of America in 1996. Upon his graduation, Mr Lau worked in a brief stint as an assistant manager in a supermarket before joining the LHH group of companies. Since then, Mr Lau has been appointed the Deputy Chief Executive Officer of Leong Hup Poultry Farm Sdn Bhd, where he is in charge of the production processes and administration. Mr Lau is also involved in the production processes and administration of Leong Hup (G.P.S.) Farm Sdn Bhd. Mr Lau was invited to the Board of Leong Hup Poultry Farm Sdn Bhd on 24 December 2004 and subsequently to the Board of Leong Hup (G.P.S.) Farm Sdn Bhd on 21 March 2007. Besides these two companies, he also sits on several other subsidiaries of LHH.

Mr Lau's knowledge and experience in the production and processes and management of poultry companies is further augmented by his attendance of several supervisory and management seminars on poultry farm operations and management conducted both locally and overseas.

**Nam Yok San**, aged 53, was appointed as the Managing Director of the Company on 19 June 2008. With nearly thirty (30) years of experience in poultry farming, of which the past fourteen (14) years has been focused on the layer farming business, Mr Nam will be tasked with the responsibility to oversee the overall operations and direction of the Group within the layer farming industry, a role he currently plays as the Managing Director of TSF.

Mr Nam was involved in the family business of rearing broiler chickens since it began in 1978, and was one of the founding partners of TSF when it was incorporated on 22 December 1983, having been appointed its Managing Director; a post which he still holds today.

In 1992, under Mr Nam's stewardship, the TSF Group undertook a strategic change in business direction by shifting its focus from rearing broiler chickens to layer farming. Since then, with his leadership and guidance, the TSF Group has become one of the top five (5) egg producers in the country.

Apart from his duties in TSF, Mr Nam has also been the Managing Director of TSPP since 1994, where he is responsible for the overall operations and ensuring that the company performs its function as another integral limb of the integrated layer farming model which has been adopted for the TSF Group. He was also appointed as Executive Director in TSFM since 2000. With his vast experience in the industry and his contributions to our Group, Mr Nam is an invaluable asset of our Group.

**Na Yok Chee**, aged 51, was appointed as the Executive Director of the Company on 19 June 2008. Like Nam Yok San, Mr Na has also been involved in the family poultry business since 1978 and has played an instrumental role in its transformation from being a broiler chicken business into one of the top five (5) layer farming groups in the country.

With the experience and knowledge that he has gained in the operations and management of our Group over nearly thirty (30) years, Mr Na will primarily be responsible to monitor the operation and performance of the brooding, pullet and layer farms of our Group, as well as overseeing any investment and expansion initiatives, including the designing and construction supervision of all farm buildings.

He currently performs these duties for our Group in his capacity as an Executive Director of TSF, a position he has held since 1983, when he was one of the founding partners of the company. Apart from this, he is also an Executive Director in TSFM, which he has held since 2000.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

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**Lau Joo Han**, aged 33, was appointed as the Non-Executive Director of the Company on 19 June 2008 and, like Lau Jui Peng, is one of the representatives of LHH on the Board of Directors of the Company. Mr Lau obtained a Degree of International Trade from Victoria University, Melbourne, Australia in 1999. He currently is the Deputy Chief Executive Officer of Ayam A1 Food Corporation Sdn Bhd, a wholly-owned subsidiary of LHH. Besides his role in Ayam A1 Food Corporation Sdn Bhd, Mr Lau is also extensively involved in the broiler production processes and administration of Leong Hup Contract Farming Sdn Bhd and Leong Hup Broiler Farm Sdn Bhd. Apart from the experienced garnered from his responsibilities, Mr Lau had also attended various seminars conducted locally and overseas in order to keep abreast of the latest trends and technologies in the poultry industry. He was invited to the Board of Leong Hup Broiler Farm Sdn Bhd on 10 October 2005 and also to several other subsidiaries of LHH in the year 2007.

**Loh Wee Ching**, aged 39, was appointed as the Non-Executive Director of the Company on 19 June 2008. Mr Loh joined TSF in 1994 as Sales Manager and he was promoted as the Senior Marketing Manager in 2003. Prior to joining the Group, he was a Marketing Executive in Telic Corporation Sdn Bhd, a diversified company which is also involved in the poultry business. His past experience of more than ten (10) years in marketing and good customer contacts has enabled him to contribute significantly to the Group's marketing strategies. With his assertive marketing skills and excellent customer relationship, he also plays a major role in providing on the job training to the marketing team of the subsidiaries of Teo Seng.

**Choong Keen Shian**, aged 51, was appointed as the Independent Non-Executive Director of the Company on 19 June 2008. He graduated with a Bachelor of Science (Hon) degree from University of Malaya in 1981. He worked for more than ten (10) years in the finance and banking industry initially with OCBC Finance Bhd and later with The Pacific Bank Bhd (now known as Malayan Banking Bhd) from 1981 to 1990. During his tenure in the financial industry, he was involved in the credit and credit control management. He joined a property development company, Arena Eksklusif Sdn Bhd in 1991 and was involved in project administration. Currently, he is the finance manager of Atlas Edible Ice Sdn Bhd, a member of The Atlas Ice Group of Company which is engaged in a wide array of business activities such oil palm and rubber plantation, tube and block ice manufacturing and investment holdings in Malaysia, Singapore and Indonesia. He is also the director of several other private limited companies within The Atlas Ice Group, and several other private limited companies which are involved in the retailing of lighting accessories and lamps.

**Frederick Ng Yong Chiang**, aged 43, was appointed as the Independent Non-Executive Director of the Company on 19 June 2008. He has completed the professional course in accountancy and thereafter being accepted as Associate member of the Chartered Institute of Management Accountants, United Kingdom and also a member of the Malaysian Institute of Accountants since 1991. Mr. Frederick Ng had previously worked for Hong Leong Industries Berhad as Project Executive in 1990. He joined Tan Chong Group of Companies in 1992 as the Administration and Accounting Manager of the Group's Papua New Guinea operations. In 1993, he joined The Atlas Ice Group of Companies. He is a non-executive director of The Atlas Ice Company Berhad, the holding company and is in charge of the ice manufacturing companies of the group in Penang, Kedah and Perlis. He is also director of several other private limited companies which are involved in the fast moving consumer goods business.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL**  
(Cont'd)

**5.3.2 Directors' shareholdings in Teo Seng**

The shareholdings of our Directors in our Company and their shareholdings in our Company before and after the IPO is as illustrated below:

Directors	Nationality	Designation	-----Before IPO^-----		-----After IPO^-----	
			<-----Direct----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->
			No. of Shares '000	%	No. of Shares '000	%
Lau Jui Peng	Malaysian	Non-Executive Chairman	-	-	150	0.1
Nam Yok San	Malaysian	Managing Director	571	0.4	951	0.5
Lau Joo Han	Malaysian	Non-Executive Director	-	-	150	0.1
Na Yok Chee	Malaysian	Executive Director	571	0.4	951	0.5
Loh Wee Ching	Malaysian	Non-Executive Director	-	-	150	0.1
Choong Keen Shian	Malaysian	Independent Non-Executive Director	-	-	150	0.1
Frederick Ng Yong Chiang	Malaysian	Independent Non-Executive Director	-	-	150	0.1

Notes:

^ Based on the issued and paid-up share capital immediately before the Public Issue of 161,390,000 Shares.

^^ Based on the assumption that their respective entitlements to the Pink Form Shares are fully taken up by the respective parties.

**5.3.3 Directors' directorships and substantial shareholdings in other public corporations for the past two (2) years**

Save as disclosed below, none of our other Directors has any directorship and/or substantial shareholdings (5% or more of the issued and paid-up share capital) in any other public corporations for the past two (2) years up to the LPD.

Name	Company	Directorship	Date appointed/resigned	-----As at the LPD-----	
				<-----Direct----->	<-----Indirect----->
				No. of shares '000	%
Frederick Ng Yong Chiang	The Atlas Ice Company Berhad	Non-Executive Director	28 May 2007/ -	-	-



## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (*Cont'd*)

### 5.3.4 Directors' remuneration and benefits

The remuneration and benefits paid to our Directors for services rendered in all capacities to our Group for FYE 31 March 2008 amounted to RM695,000. For FYE 31 March 2009, the amount payable to our Directors is estimated at RM1,265,000. Details of the aggregate remuneration are as follows:

Directors	FYE 2008	FYE 2009
Lau Jui Peng	Not applicable	Band 1
Nam Yok San	Band 5	Band 11
Lau Joo Han	Not applicable	Band 1
Na Yok Chee	Band 5	Band 9
Loh Wee Ching	Band 5	Band 6
Choong Keen Shian	Not applicable	Band 1
Frederick Ng Yong Chiang	Not applicable	Band 1

**Notes:**

*Band 1 : Up to RM50,000 per annum*

*Band 2 : Between RM50,001 to RM100,000 per annum*

*Band 3 : Between RM100,001 to RM150,000 per annum*

*Band 4 : Between RM150,001 to RM200,000 per annum*

*Band 5 : Between RM200,001 to RM250,000 per annum*

*Band 6 : Between RM250,001 to RM300,000 per annum*

*Band 7 : Between RM300,001 to RM350,000 per annum*

*Band 8 : Between RM350,001 to RM400,000 per annum*

*Band 9 : Between RM400,001 to RM450,000 per annum*

*Band 10 : Between RM450,001 to RM500,000 per annum*

*Band 11 : Between RM500,001 to RM550,000 per annum*

## 5.4 CORPORATE GOVERNANCE

The Board of our Company is committed to the principles of corporate governance in the Malaysian Code on Corporate Governance ("Code"). Our Board will continuously evaluate the status of our Group's corporate governance practices and procedures with a view to adopting and implementing the Best Practices of the Code wherever applicable in the best interests of the shareholders.

The Board has formed three (3) committees, namely the Audit Committee, Remuneration Committee and the Nomination Committee on 19 June 2008.

### 5.4.1 Audit Committee

We have established an Audit Committee on 19 June 2008. The Committee comprises the following Board Members:

Name	Designation	Directorship
Choong Keen Shian	Chairman of Committee	Independent Non-Executive Director
Lau Jui Peng	Member of Committee	Non-Executive Chairman
Frederick Ng Yong Chiang	Member of Committee	Independent Non-Executive Director

The Audit Committee is responsible for the recommendations to the Board regarding the selection of the external auditors, reviewing the results and scope of the audit and other services provided by our external auditors and reviews and evaluates our Group's internal audit and control functions. The Audit Committee is also responsible for the assessment of financial risk and matters relating to related party transactions and conflict of interests. The Audit Committee may obtain advice from independent parties and other professionals in the performance of its duties.

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL *(Cont'd)*

### 5.4.2 Remuneration Committee

We have established a Remuneration Committee on 19 June 2008. The Committee comprises the following Board Members:

Name	Designation	Directorship
Lau Jui Peng	Chairman of Committee	Non-Executive Chairman
Lau Joo Han	Member of Committee	Non-Executive Director
Choong Keen Shian	Member of Committee	Independent Non-Executive Director

The Remuneration Committee is responsible for the review of Directors' fees to ensure that they are at sufficiently competitive levels, consider severance payments that represent public interest and avoid any inappropriate use of public funds and to recommend and advise the Board on the terms of appointment and remuneration of its members. The Remuneration Committee is also responsible for the establishment of a formal and transparent procedure for developing policy on remuneration packages of individual Directors. The Remuneration Committee reviews all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefit-in-kind.

### 5.4.3 Nomination Committee

We have established a Nomination Committee on 19 June 2008. The Committee comprises the following Board Members:

Name	Designation	Directorship
Lau Jui Peng	Chairman of Committee	Non-Executive Chairman
Choong Keen Shian	Member of Committee	Independent Non-Executive Director
Frederick Ng Yong Chiang	Member of Committee	Independent Non-Executive Director

The Nomination Committee is responsible to identify candidates and review all nominations for the appointment or reappointment of members of the Board, the Chief Financial Officer of the Group, and to determine the selection criteria therefore. The Nomination Committee reviews the criteria for evaluating the Board's performance. Based on the recommendation of the Nomination Committee, the Board will establish processes for evaluating the effectiveness of the Board as a whole. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities, communication with management and standards of conduct of Directors.

### 5.4.4 Re-election of Directors

The Directors are appointed by the shareholders of the Company at a general meeting and an election of Director takes place annually.

The following provisions are extracted from the Articles of Association of the Company in respect of the re-election of Directors. Terms defined in the Company's Articles of Association shall have the same meanings when used here unless the context otherwise requires.

#### Article 103(1):

At the first annual general meeting of the Company all the directors shall retire from office, and at the annual general meeting in every subsequent year one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to one-third shall retire from office. PROVIDED ALWAYS that all directors shall retire from office once at least in each three (3)

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

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years but shall be eligible for re-election. A retiring director shall retain office until the close of the meeting at which he retires.

**Article 103(2):**

The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

**Article 104:**

A retiring director shall be eligible for re-election but save as aforesaid no person shall be eligible for election as a director at a general meeting unless a notice in writing of intention to propose his election signed by a member and a notice of his consent signed by himself have been left at the Office not more than thirty (30) days nor less than eleven (11) clear days before the date appointed for the meeting, provided that in the case of a person recommended by the directors for election nine (9) clear days notice only shall be necessary and notice of every candidate for election to the Board of Directors shall be served on all members at least seven (7) days prior to the meeting at which the election is to take place.

**Article 105:**

The Company at the meeting at which a director retires may fill the vacated office by electing a person thereto. Unless at that meeting it is expressly resolved not to fill the vacated office or a resolution for re-election of the director retiring at that meeting is put to the meeting and lost or some other person is elected a director in place of the retiring director, the retiring director shall, if offering himself for re-election and not being disqualified under the Act from holding office as a director, be deemed to have been re-elected. A retiring director shall be deemed to have offered himself for re-election unless he has given notice in writing to the Company that he is unwilling to be re-elected.

**Article 106:**

A general meeting at which more than one director is to be elected, each candidate shall be the subject of a separate motion and vote unless a motion for the appointment of two or more persons as directors by a single resolution shall have first been agreed to by the meeting without any vote being given against it.

**Article 140:**

The directors may from time to time appoint any one or more of their body to be the Managing Director. Any such appointment shall be for such period not exceeding three (3) years subject to reappointment and on such terms as the directors think fit. The directors may vest in such Managing Director such of the powers hereby vested in the directors generally as they may think fit. The Managing Director shall be subject to the control of the Board of Directors.

**Article 142:**

The Managing Director shall, while he continues to hold such office be subject to retirement by rotation, and shall be reckoned as a director for the purpose of determining the rotation or retirement of directors or in fixing the number of directors to retire, but he shall, subject to provisions of any contract between him and the Company, be subject to the same provisions as to resignation and removal as the other directors of the Company and if he cease to hold the office of director from any cause shall ipso facto and immediately cease to be Managing Director.

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## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (*Cont'd*)

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### 5.5 KEY MANAGEMENT AND TECHNICAL PERSONNEL

#### 5.5.1 Profile

**Na Hap Cheng**, aged 54, was appointed as the Group General Manager in 1983. He is responsible for the overall operations of our integrated commercial layer farming activities. His responsibilities include overseeing the various departments within our Group and co-ordinating the activities of the support subsidiaries to ensure the smooth and cohesive running of the integrated layer farming operations.

Mr Na is another founder partner of TSF and has been appointed Director of TSF on 22 December 1983. He is currently responsible for the overall health and hygiene aspects of the layer farms. Over the years, he has gained invaluable exposure in the management of layer farms and poultry business. In addition, he also advises on farm control systems.

**Nam Hiok Yong**, aged 45, is currently the General Manager of TSPP appointed in 1994 and he is responsible for the operation and production of the paper egg trays. With his invaluable experience in the area of machinery for more than 20 years, he is also in charge of the machinery maintenance of the Group. He oversees and ensures the smooth running of all machinery in the Group, and also provides guidance on machine specifications and servicing. He also plays a major role in sourcing and purchasing machinery for the Group, as well as in planning the machinery operating work flows.

**Nam Hiok Joo**, aged 41, is currently the General Manager of TSFM appointed in 2000. He is responsible for the operation and production of chicken feeds. He oversees the quality control of the feed and ensures that they meet the nutritional requirement of chickens at the different growing stages. He also oversees the Group's administrative operations. In 2005, Mr Nam was appointed as Executive Director of Ritma and later promoted as Managing Director, where he plays a major role in the company's management and direction of Ritma.

**Ku Leong Choon**, aged 41, joined TSF in 1987 as farm worker and later he was promoted to Farm Manager in 1995 and Senior Farm Manager in 2002. Mr Ku has over 20 years of experience in the field of farm operations. His main duties include supervising and coordinating the various work functions of farm managers, monitoring overall farm operation and assisting the Group's veterinarians in maintaining a disease-free environment in the farms. With his past experience, he also provides valuable advice on chicken health control and the egg production.

**Dr. Kee Sze Lean**, aged 31, is the Senior Veterinary Executive of TSF and has been appointed since 2002. She graduated with a degree of Doctor of Veterinary Medicine at University Putra Malaysia in 2002. Her responsibility in the Group involves in overseeing the health of chickens at all the growing stages, and monitors the control and maintenance of the farm environment. She also stipulates the vaccination program against various diseases and ensuring them being carried out correctly and in a timely manner. She also carries out regular tests on sampled chickens and ensures that every farm complies with the Criteria of the Good Farm Practices Scheme and Malaysia's National Salmonella Program, under the Department of Veterinary Services.

**Wong Lee Peng**, aged 34, was appointed as the Accountant-cum-Finance Manager of the Group in 2005, whose primary responsibilities is to provide timely financial information for decision making, implement an internal control system, review and analyse the financial performance of the Group and oversee the Group's accounts.

Ms Wong is a member of the Association of Chartered Certified Accountants ("ACCA") since 2004 and Malaysian Institute of Accountants ("MIA") since 2004. She joined TSF as the Accountant of TSF in November 2005. Prior to joining the Group, she was an Assistant Accountant with Cemex, Malaysia Operations (previously known as RMC Group of Companies). She has gained over ten (10) years of experience in the field of accounting, taxation and finance.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

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**Nam Ya Jun**, aged 26, was appointed as the Executive in charge of human resources and administrative functions of the Group on 1 July 2005. His primary responsibility is to cover all the human resources functions and overseeing administrative functions of the Group.

Mr Nam is currently the Group Assistant Manager overseeing the Department of Human Resources and Administration of TSF and its subsidiaries, a post he has held since 2008. He graduated with an Honours degree in Science, majoring in Psychology from Victoria University of Wellington, New Zealand, in 2004.

**Dato' Dr. Ma'amor**, aged 48, is the Director of Ritma appointed in 2003 and acting as the technical product adviser for Ritma's products. He graduated with a Doctor of Medicine from Universiti Kebangsaan Malaysia in 1987. He was attached to Kuala Lumpur General Hospital and Dewan Bandaraya Kuala Lumpur for several years before he started his own private practice and registered Klinik Maamor as his base in 1993. Dato' Dr Ma'amor is also actively involved with non-Governmental activities, and currently serves as the Secretary General for the Muslim Consumer Association of Malaysia since its inception in 1997. In addition, he is also sits on the Board of various private companies. With his diverse experience in various fields, including medicine and consumer rights, Dato' Dr Ma'amor is an invaluable asset to the Group.

**Dr 'Aidawani**, aged 38, is the Director of Ritma appointed in 2004 and acting as the technical product adviser for Ritma's products. She graduated with a Doctor of Veterinary Medicine from University Putra Malaysia in 1995. After graduating, she joined Leong Hup Poultry Farm Sdn Bhd for several years working as a Farm Veterinarian. In her working line, she has gained about 10 years of invaluable experience in poultry farming. Using her past experiences, her responsibility is to provide technical advices and guidance on the proper usage of medicines.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL**  
(Cont'd)

**5.5.2 Key management and technical personnel's shareholdings in Teo Seng**

The shareholdings of our key management and technical personnel in our Company and their shareholdings in our Company before and after the IPO is as illustrated below:

Key management and technical personnel	Designation	Before IPO <sup>^</sup>		After IPO <sup>^^</sup>			
		Direct	Indirect	Direct	Indirect		
		No. of Shares '000	%	No. of Shares '000	%	No. of Shares '000	%
Na Hap Cheng	Director of TSF and Group General Manager	602	0.4	-	-	982	0.5
Nam Hiok Yong	General Manager of TSPP	421	0.3	-	-	445	0.2
Nam Hiok Joo	General Manager of TSFM and Managing Director of Ritma	421	0.3	-	-	671	0.3
Ku Leong Choon	Senior Farm Manager of the Group	-	-	-	-	20	*
Dr. Kee Sze Lean	Senior Veterinary Executive of the Group	-	-	-	-	10	*
Wong Lee Peng	Accountant-cum-Finance Manager of the Group	-	-	-	-	8	*
Nam Ya Jun	Group Assistant Manager	-	-	-	-	8	*
Dr 'Aidawani	Director of Ritma	9,173	5.7	-	-	18,323	9.2
Dato' Dr Ma'amor	Director of Ritma	1,835	1.1	-	-	18,285	9.1

Notes:

<sup>^</sup> Based on the issued and paid-up share capital immediately before the Public Issue of 161,390,000 Shares.

<sup>^^</sup> Based on the assumption that their respective entitlements to the Pink Form Shares are fully taken up by the respective parties.

\* Negligible.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL**  
(Cont'd)

**5.6 INVOLVEMENT OF EXECUTIVE DIRECTOR, KEY MANAGEMENT AND TECHNICAL PERSONNEL IN OTHER BUSINESS OR CORPORATIONS**

Except for their involvement in the Teo Seng Group and their directorships in dormant companies, and save as disclosed below, none of our Executive Directors, key management or technical personnel is involved in other businesses or corporations.

<b>Name</b>	<b>Company</b>	<b>Principal activities</b>	<b>Position</b>
Dato' Dr Ma'amor	Klinik Maamor	Medical clinic	Pegawai Perubatan (Medical Officer)
	Arena Lagenda Sdn Bhd	Supply of laboratory equipment and chemicals to schools	Director
	Inno Scientific and Services Sdn Bhd	Pest control and general trading	Director
	Rasa Rasa Malaysia Sdn Bhd	Restaurant and caterer operator to enter into partnership arrangement to establish agency business	Director
	Research Institute of Standards in Islam	To promote objects based on Islamic teaching and traditional values, guidance and advises, and to set and/or apply Islamic standards for the adoption of all objects beneficial to the Islamic welfare	Director
	Super Fast Ferry Ventures Sdn Bhd	Ticketing agent in the sales of ferry ticket and cargo sales	Director
Dr 'Aidawani	Jejakan Cemerlang Sdn Bhd	Foreign workers training centre	Director
	Mantap Eksklusif Sdn Bhd	Trading in further process food stuff	Director
	Waniku Enterprise	Selling and distributing food products, drinks, spices, fruits, clothes, decorative goods, crafts, animal feeds and equipment	Registered Owner

Notwithstanding their involvement in the companies listed above, Dato' Dr Ma'amor and Dr 'Aidawani have confirmed that they would allocate at least 50% of their time for their responsibilities within our Group. The management of Teo Seng is of the opinion that this would be sufficient for them to perform their duties within the Group, based on their respective roles and scope of responsibilities.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

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**5.7 DECLARATIONS OF PROMOTERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL**

Save as disclosed below, none of our promoters, Directors, key management and technical personnel is or was involved in the following events (whether inside or outside Malaysia):

- (i) A petition under any bankruptcy or insolvency laws filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
- (ii) Disqualification from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (iii) Charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (iv) Any judgment entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or
- (v) The subject of any order, judgment or ruling of any court, government, or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

**5.8 FAMILY RELATIONSHIP**

In accordance to Section 122A of the Act, save as disclosed below, there are no family relationships or associations amongst our promoters, substantial shareholders, Directors, key management and technical personnel.

Nam Yok San, Na Hap Cheng, Na Yok Chee, Nam Hiok Yong and Nam Hiok Joo are brothers, whilst Nam Ya Jun is the son of Nam Yok San.

Datin Heng Ah Pee and Datin Chua Ah Nia @ Chua Kah Nui are sisters-in-law. Lau Jui Peng is the son of Datin Heng Ah Pee and Lau Joo Han is the son of Datin Chua Ah Nia @ Chua Kah Nui. Lau Jui Peng and Lau Joo Han are cousins.

**5.9 SERVICE AGREEMENTS**

As at the LPD, none of our Directors, key management and technical personnel has any existing or proposed service agreements that are not in relation to the standard terms of employment of our Group.

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## 6. APPROVALS AND CONDITIONS

### 6.1 CONDITIONS OF APPROVALS

The IPO under the terms of this Prospectus was approved by the SC on 31 March 2008, and MITI on 4 January 2008 and 26 March 2008, subject to the following conditions:

Details of conditions imposed	Status of compliance														
<b>SC</b>															
(i) The proceeds from the Proposed Offer for Sale should be put into a trust account until the listing of Teo Seng on Bursa Securities;	Noted and to be complied.														
(ii) The flotation of Teo Seng can only be implemented after the following conditions have been met:															
(a) Teo Seng must demonstrate that it had achieved its profit forecast for financial year ended 31 March 2008 based on its audited accounts for the said financial year, before the prospectus can be issued; and	Complied. SC had subsequently vide a letter dated 11 August 2008, informed that they have no objection on the implementation of the flotation of Teo Seng.														
(b) LHH must be able to demonstrate to the SC that it is able to sustain its own listing status based on its results as supported by its audited accounts for financial year ended 31 March 2008;															
(iii) Teo Seng is to disclose the following in the prospectus:															
(a) The risk of high dependency on LHH for the sourcing of day-old chicks and raw materials and action(s) to be taken to mitigate the risk;	Complied. Disclosed in Section 3.6 of this Prospectus.														
(b) The basis of the purchase consideration of Success Century;	Complied. Disclosed in Section 2.7.1 of this Prospectus.														
(c) HwangDBS and the Board are required to comment on the reasonableness of the purchase consideration of Success Century; and	Complied. Disclosed in Section 2.7.1 of this Prospectus.														
(d) The risk factors associated with diseases related to layer farming and the actions taken to mitigate the risk;	Complied. Disclosed in Section 3.1 of this Prospectus.														
(iv) Moratorium on the sale of Teo Seng Shares is imposed on the following shareholder, whereby it is not allowed to sell, transfer or assign its shareholding in Teo Seng for one (1) year from the date of admission of Teo Seng to the Second Board of Bursa Securities;	To be complied. Further details of the moratorium are disclosed in Section 6.2 of this Prospectus.														
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Promoter</th> <th colspan="2">Shareholdings after flotation</th> <th colspan="2">Shareholdings under moratorium</th> </tr> <tr> <th>No. of Shares</th> <th>%</th> <th>No. of Shares</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>AVSB</td> <td style="text-align: right;">102,246,001</td> <td style="text-align: right;">51.1</td> <td style="text-align: right;">90,000,000</td> <td style="text-align: right;">45.0</td> </tr> </tbody> </table>		Promoter	Shareholdings after flotation		Shareholdings under moratorium		No. of Shares	%	No. of Shares	%	AVSB	102,246,001	51.1	90,000,000	45.0
Promoter	Shareholdings after flotation		Shareholdings under moratorium												
	No. of Shares	%	No. of Shares	%											
AVSB	102,246,001	51.1	90,000,000	45.0											
(v) Teo Seng is to comply with the National Development Policy (NDP) requirement whereby Bumiputera investors holding 60,507,931 Teo Seng Shares (via Dato' Dr Ma'amor, Dr 'Aidawani and placees for the 24,400,000 offer for sale shares) upon listing to be recognised/approved by MITI;	To be complied and please refer to the note below (last paragraph).														

## 6. APPROVALS AND CONDITIONS (Cont'd)

Details of conditions imposed	Status of compliance
(vi) HwangDBS/Teo Seng is to inform the SC on the status of compliance with the NDP requirement upon completion of the listing exercise; and	Noted and to be complied.
(vii) HwangDBS/Teo Seng should comply with all relevant requirements in relation to the above proposal, as stipulated in the Policies and Guidelines on Issue/Offer of Securities.	Noted and to be complied.

### MITI

(i) Teo Seng is to obtain the SC's approval and comply with the guidelines on the acquisitions of interest, mergers and takeovers by local and foreign interest.	Complied. SC's approval was obtained on 31 March 2008.
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The SC had, vide its letter dated 8 September 2008, granted its approval for the extension of time of three (3) months up to 31 December 2008 to complete the Listing. Bursa Securities had also, vide its letter dated 16 July 2008, granted its approval in-principle for our Listing.

The equity structure relating to Bumiputera, non-Bumiputera and foreign shareholdings in Teo Seng would change arising from the implementation of the listing proposal, as follows:

	Before proposal <sup>1</sup>	After proposal
	%	%
Bumiputera	0.00	<sup>2</sup> 30.25
Non-Bumiputera	100.00	69.75
Foreigners	0.00	0.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Notes:

- As at incorporation.
- Subject to approval by MITI and excluding the effective Bumiputera equity holding in LHH.

The SC (under the Guideline on the Acquisition of Interests, Mergers and Take-overs by Local and Foreign Interests) had, vide its letter dated 19 September 2008, granted its approval for the extension of time of one (1) year from the date of our admission to the Official List of the Second Board of Bursa Securities to comply with the NDP, subject to the following conditions:

- up to 11,000,000 shares (i.e. offer for sale portion) to be placed in trust account, where the shares must be placed to Bumiputera investors approved by MITI within 12 months from the date of the listing of the said shares; and
- HwangDBS to furnish an undertaking letter that the said shares to be placed in trust account will be placed to Bumiputera investors approved by MITI and they will not deal in the said shares save for placement to the Bumiputera investors.

### 6.2 MORATORIUM ON THE SALE OF SHARES

Pursuant to the Listing Requirements of Bursa Securities, Shares held by our promoters amounting to 45% of our nominal issued and paid-up share capital at the date of admission of our Company to the Official List of the Second Board of Bursa Securities are to be placed under moratorium. In this respect, our promoters whose shares are subject to moratorium are set out below:

Promoters	Shareholdings after IPO		Shareholdings under moratorium	
	No. of Shares	%	No. of Shares	%
AVSB	102,246,001	51.1	90,000,000	45.0

AVSB has fully accepted the moratorium. The company will not be permitted to sell, transfer or assign any part of their respective interest in the Shares under moratorium within one (1) year from the date of our admission to the Official List of the Second Board of Bursa Securities.

The restriction is specifically endorsed on the notices of allotment representing the respective shareholding of our promoters which are under moratorium to ensure that our Registrar shall not register any transfer not in compliance with the moratorium restrictions.

## 7. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS

### 7.1 INTEREST IN SIMILAR BUSINESS

Save as disclosed below, as at the LPD, none of our Directors or substantial shareholders has any interest, direct or indirect, in any business or corporations carrying on a similar trade as our Company or our subsidiaries in Malaysia:

Name	Companies	Effective Interest as at LPD (%)	Principal activities
LHH <sup>1</sup>	F.E. Venture Sdn Bhd	51.0	Trading of animal pet feeds and veterinary products
	Laboratorios Reveex (Asia) Sdn Bhd	26.0 <sup>2</sup>	Trading in veterinary products
	Gymtech Feedmill (Malacca) Sdn Bhd	20.0 <sup>3</sup>	Manufacturing and marketing of animal feeds
	Ideal Multifeed (Malaysia) Sdn Berhad	11.9 <sup>3</sup>	Manufacturing and marketing of animal feeds

Notes:

1. *By virtue of the direct interest of LHM in LHH, and the indirect interest of Datin Heng Ah Pee and Datin Chua Ah Nia @ Chua Kah Nui in LHH through LHM, pursuant to Section 6A of the Act, LHM, Datin Heng Ah Pee and Datin Chua Ah Nia @ Chua Kah Nui are deemed to be indirectly interested in all business interests of LHH.*
2. *LHH is a 51.0% shareholder of F.E. Venture Sdn Bhd, which in turn is the 51.0% holding company of Laboratorios Reveex (Asia) Sdn Bhd.*
3. *LHH is a 20.0% shareholder of Emivest Berhad, which in turn is the 100.0% and 59.7% holding company of Gymtech Feedmill (Malacca) Sdn Bhd and Ideal Multifeed (Malaysia) Sdn Berhad, respectively.*

Our Group is principally involved in commercial layer farming and related businesses (such as manufacturing of egg trays and feedmill for commercial layer chickens only), as well as the distribution of pet food, medicine and other related products. Apart from our Group, LHH has no other subsidiaries which are involved in our Group's core businesses of commercial layer farming for chicken eggs or the manufacturing of paper egg trays. Moreover, management of the Teo Seng Group is separate and distinct from LHH.

LHH has associated companies, namely Gymtech Feedmill (Malacca) Sdn Bhd and Ideal Multifeed (Malaysia) Sdn Berhad, which are involved in the production of animal feed, but less than 10% of the feed produced by these companies are meant for commercial layer chickens. On the other hand, in the case of our subsidiary, TSFM, more than 90% of its feed production are sold to TSF and Success Century, our Group's contract farmer. Hence, we are of the opinion that a conflict of interest situation does not arise.

In the case of Ritma, which is involved in activities which are similar to that of F.E. Venture Sdn Bhd, a 51.0% owned subsidiary of LHH, the potential for any conflict of interest does not arise as:

- (i) both companies trade in products within different market segments. Ritma is involved in the distribution of various types of animal health product whilst F.E. Venture Sdn Bhd is mainly involved in the distribution of poultry health products. Further, Ritma mainly distributes products of Bayer Thai Co. Ltd, Farm Care GB Ltd and Vetpharm Laboratories (S) Pte Ltd as Ritma has obtained distributorship to distribute their products in certain territories on an exclusive basis; and
- (ii) going forward, it will be the policy of the respective managements of LHH and our Group to co-ordinate our future strategies in order to continue reaping the synergistic benefits of the existing partnership.

**7. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (Cont'd)**

**7.2 RELATED PARTIES TRANSACTIONS**

Save as disclosed below and in Section 7.3.3 of this Prospectus, for the past three (3) FYE 31 March 2008 and the financial period between then and the date immediately preceding the date of this Prospectus, there were/are no existing and/or proposed related party transactions and/or conflict of interests between our Group and our Directors, key management and technical personnel, substantial shareholders and/or persons connected with such a Director, key management, technical personnel, or substantial shareholder, as defined under Section 122A of the Act.

7.2.1 The transactions disclosed in Sections 4.2.1 and 4.2.2 of this Prospectus in relation to the corporate restructuring undertaken by our Group in conjunction with our IPO.

7.2.2 By way of a sale and purchase agreement dated 14 March 2006, TSF acquired from Na Yok Chee, all that piece of land held under H.S (M) 342 Lot PT 846, Mukim of Chaah Bahru, Tempat Batu 74 ¾ Jalan Labis, District of Batu Pahat, State of Johor for a cash consideration of RM338,343. Na Yok Chee is the Executive Director of our Group. The transaction was completed on 22 May 2006.

7.2.3 By way of a share purchase agreement dated 14 June 2006 between TSF and Dr 'Aidawani and Dato' Dr Ma'amor whereby TSF agreed to acquire 25,000 shares of RM1.00 each in Ritma ("Ritma Shares") held by Dr 'Aidawani and 5,000 Ritma Shares held by Dato' Dr Ma'amor for a total consideration of RM1,200,000 which was satisfied by the issuance of 366,000 ordinary shares of TSF issued at a valuation of approximately RM3.28 per share. Dr 'Aidawani and Dato' Dr Ma'amor are both members of the key management of our Group as well as Directors of Ritma, our wholly-owned subsidiary. The transaction was completed on 5 July 2006.

7.2.4 Recurrent related party transactions:

Transacting party	Nature of relationship	Nature of transaction	FYE 2006 RM'000	FYE 2007 RM'000	FYE 2008 RM'000	FYE 2009 (forecast) RM'000
LHH and its subsidiary companies	Datuk Lau Chong Wang, Dato' Lau Bong Wong, Dato' Lau Eng Guang and Tan Sri Lau Tuang Nguang are Directors and shareholders of LHH ("LHH Directors"). Lau Jui Peng and Lau Joo Han, who are Directors of Teo Seng, are persons connected to the LHH Directors.  In addition, AVSB, a subsidiary company of LHH, is a major shareholder of Teo Seng. LHH is also a major shareholder (direct and indirect) of Teo Seng.	Secretarial fee, interest expense, information technology services, sale of eggs, sale of egg trays, sale of veterinary goods, sale of old chickens, sale of medicine, purchase of DOC, purchase of medicine, security charges, laboratory charges, rental expenses, sundry purchases	3,754	4,627	5,027	6,200

## 7. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (Cont'd)

Transacting party	Nature of relationship	Nature of transaction	FYE 2006 RM'000	FYE 2007 RM'000	FYE 2008 RM'000	FYE 2009 (forecast) RM'000
Emivest Berhad ("Emivest") and its subsidiary companies	Dato' Lau Bong Wong and Dato' Lau Eng Guang are Directors and shareholders of Emivest ("Emivest Directors"). Lau Jui Peng and Lau Joo Han, who are Directors of Teo Seng, are persons connected to the Emivest Directors.  In addition, AVSB, a subsidiary company of LHH, is a major shareholder of Teo Seng. LHH is also a major shareholder of Teo Seng (direct and indirect) and Emivest.	Sales of egg trays, sales of veterinary goods, sales of raw materials, purchase of feed, purchase of raw materials, laboratory charges, management fee	3,701	25,422	20,427	50,000
Kylen Enterprise Sdn Bhd ("Kylen")	Ng Soi Yong, a Director and 29.99% shareholder of Kylen, is person connected to Lau Jui Peng and Lau Joo Han, who are Directors of Teo Seng.	Sale of eggs	5	-	-	20
Mujur Cekap Sdn Bhd ("Mujur Cekap")	Teo Sik Ghoo, who is a Director and 66.63% shareholder of Mujur Cekap, is the wife of Nam Yok San. Nam Yok San is Director of Teo Seng.	Transportation	1,305	1,800	1,752	3,200
Ladang Temakan Maju Sdn Bhd ("LTM")	Tan Sri Lau Tuang Nguang, a 18% shareholder of LTM, is a person connected to Lau Jui Peng and Lau Joo Han, who are Directors of Teo Seng.	Sale of veterinary goods, sales of egg trays	9	12	49	120
Poly Yarn Marketing Sdn Bhd ("PYM")	Dato' Lau Bong Wong and Lau Joo Heng, Directors of PYM, are persons connected to Lau Jui Peng and Lau Joo Han, who are Directors of Teo Seng. LHM, a 42.06% shareholder of PYM, is also an indirect major shareholder of Teo Seng.	Purchase of packing material	-	-	1	20
Astaka Shopping Centre (Muar) Sdn Bhd ("ASC SB")	Dato' Lau Eng Guang, Lau Hai Nguan and Lau Joo Hong, Directors of ASCSB, are persons connected to Lau Jui Peng and Lau Joo Han, who are Directors of Teo Seng. ASCSB is a wholly-owned subsidiary of LHM, which is also an indirect major shareholder of Teo Seng.	Sale of eggs, sundry purchases	191	160	597	900

**7. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (Cont'd)**

Transacting party	Nature of relationship	Nature of transaction	FYE 2006 RM'000	FYE 2007 RM'000	FYE 2008 RM'000	FYE 2009 (forecast) RM'000
Teratai Agriculture Sdn Bhd ("TASB")	Dato' Lau Bong Wong and Lau Hai Nguan are Directors of TASB (collectively "TASB Directors"). Datin Heng Ah Pee, Datin Chua Ah Nia @ Chua Kah Nui, Goh Hui Siang, Datin Tan Chay Hoon, Datin Goh Kim Kooi, Lai Chong Koo, Puan Sri Wong Kee Choo (collectively "Individual Shareholders") and Sri Menawan Sdn Bhd (wholly controlled by abovementioned Individual Shareholders and Lau Chun Yuen), are major shareholders of TASB (collectively "TASB Major Shareholders"). TASB Directors and TASB Major Shareholders are persons connected to Lau Jui Peng and Lau Joo Han, who are Directors of Teo Seng.	Purchase of medicine, sale of medicine	-	80	110	200

Our Directors will ensure that recurrent related party transactions carried out are not prejudicial to our Group, nor on terms more favourable to the related parties than those normally agreed with other customers/suppliers and are also not to the detriment of our Group and the minority shareholders of Teo Seng.

The transactions are intended to meet the business needs of our Group on the best possible terms. By transacting with the related parties, our Group would have an advantage of familiarity with the background and management of the related parties, thus enabling more informed commercial decisions to be made. In most dealings with the related parties, our Group and the related parties have close co-operation and a good understanding of each other's business needs thus providing a platform where all parties can benefit from conducting the transactions.

The related party transactions entered/to be entered into by the Group as set out in Section 7.2.4 above are all in the ordinary course of business. They are recurring transactions of revenue or trading nature, which are likely to occur with some degree of frequency and arise at any time and from time to time. As these transactions may be constrained by the time-sensitive nature and confidentiality of such transactions, it may be impractical to seek shareholders' approval on a case-by-case basis before entering into such transactions. As such, we will seek shareholders' mandate pursuant to Paragraph 10.09 and Practice Note No. 12/2001 of the Listing Requirements of Bursa Securities to allow our Group to enter into such transactions made on an arm's length basis and on normal commercial terms and which are not detrimental to our shareholders.

We have obtained a waiver from Bursa Securities vide its letter dated 17 July 2008, to allow our Group to procure the abovementioned shareholders' mandate at our annual general meeting or extraordinary general meeting, whichever is earlier, after our listing date.

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**7. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (Cont'd)**

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**7.3 OTHER TRANSACTIONS**

For the past three (3) FYE 31 March 2008 and the financial period between then and the date immediately preceding the date of this Prospectus:

- 7.3.1 There were/are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party.
- 7.3.2 There were/are no outstanding loans (including guarantees of any kind) made by our Group or our parent to/for the benefit of related parties.
- 7.3.3 None of our Directors or substantial shareholders has any interest, direct or indirect, in the promotion of or in any material assets acquired or proposed to be acquired or disposed or proposed to be disposed or leased or proposed to be leased by our Group, save as disclosed in Sections 7.2 and 13.5 of this Prospectus.

**7.4 INTEREST IN CONTRACTS AND ARRANGEMENTS**

Save as disclosed in Section 7.2 above, there are no contracts or arrangements subsisting at the date of this Prospectus in which any of our Directors or substantial shareholders of our Company is interested and which is significant in relation to the business of our Company or our Group taken as a whole.

**7.5 DECLARATION BY EXPERTS**

HwangDBS, being our Adviser, Underwriter and Placement Agent, confirms that there is no existing or potential conflict of interest in its advisory capacity to our Group.

Enlil Loo confirms that there is no existing or potential conflict of interest in its capacity as the due diligence Solicitors to our Group in respect of the IPO.

Deloitte KassimChan confirms that there is no existing or potential conflict of interest in its capacity as the Reporting Accountants and Auditors to our Group in respect of the IPO.

Dun & Bradstreet (D&B) Malaysia Sdn Bhd confirms that there is no existing or potential conflict of interest in its capacity as the Independent Market Researcher to our Group in respect of the IPO.

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## 8. FINANCIAL INFORMATION

### 8.1 HISTORICAL FINANCIAL INFORMATION

The following is a summary of our proforma consolidated results for the past three (3) FYE 31 March 2008. The proforma consolidated results are presented for illustrative purposes only and have been prepared on the assumption that our Group structure has been in existence throughout the financial years under review. The table should be read in conjunction with the accompanying notes and assumptions set forth in Section 8.4 of this Prospectus.

FYE 31 March	2006 RM'000	2007 RM'000	2008 RM'000
Revenue	101,264	112,641	159,343
Gross profit	21,056	19,828	25,605
EBITDA	18,481	17,549	21,862
Depreciation	(3,732)	(4,124)	(4,526)
Amortisation	(20)	-	-
Finance costs	(1,459)	(2,223)	(2,466)
PBT	13,270	11,202	14,870
Taxation	(3,308)	(2,252)	(2,343)
PAT	9,962	8,950	12,527
Paid-up capital of proforma Group ('000)	161,390	161,390	161,390
Gross EPS (sen)*	8.22	6.94	9.21
Net EPS (sen)*	6.17	5.55	7.76
Paid-up capital of TSF ('000)	5,366	5,366	5,366
Gross EPS (sen)*	247.30	208.76	277.12
Net EPS (sen)*	185.65	166.79	233.45
Gross profit margin (%)	20.79	17.60	16.07

**Notes:**

- (i) *The Group's proforma consolidated income statements for the three (3) FYE 31 March 2008 are prepared for illustrative purpose only and on the assumption that the acquisitions of TSF Group (comprising of TSF and its subsidiary companies, TSFM, TSPP and Ritma), by Teo Seng were completed on 1 April 2005. The proforma consolidated income statements of the proforma Teo Seng Group are based on the audited financial statements of Teo Seng and of its subsidiary companies for the three (3) FYE 31 March 2008 and have been prepared based on the accounting policies consistent with those adopted in the preparation of the statutory financial statements of Teo Seng and of its subsidiary companies acquired subsequent to 31 March 2008.*
  - (ii) *The results of Ritma for the financial period 1 January 2005 to 31 March 2006 was consolidated with the financial statements of the proforma Teo Seng Group without adjustment for the effect of different FYE as the effect of the difference in FYE is not material.*
  - (iii) *The paid-up capital of Teo Seng represents issued and fully paid ordinary shares issued amounting to RM32,278,000 comprising of 161,390,000 Teo Seng Shares, pursuant to the acquisition of the subsidiary companies.*
  - (iv) *The paid-up capital of TSF represents issued and fully paid ordinary shares of 5,366,000 upon the completion of the acquisition of the remaining 30% equity interest in Ritma on 5 July 2006.*
  - (v) *The gross EPS and net EPS of the proforma Teo Seng Group and TSF are calculated based on PBT and PAT over the number of shares of 161,390,000 and 5,366,000 respectively.*
  - (vi) *There is no extraordinary item, exceptional item and minority interest for the financial years under review.*
  - (vii) *All significant inter-company transactions are eliminated.*
- \* *No diluted EPS is presented as the proforma Teo Seng Group has no dilutive potential ordinary shares.*



## 8. FINANCIAL INFORMATION (Cont'd)

### 8.2 CAPITALISATION AND INDEBTEDNESS

The capitalisation and indebtedness of our Group as at 31 March 2008 based on our proforma consolidated balance sheet as at 31 March 2008, adjusted for the net proceeds arising from the Public Issue and the utilisation of proceeds as set out in Section 2.7 of this Prospectus are as follows:

	Proforma as at 31 March 2008 RM'000	After adjusted for Public Issue and utilisation of proceeds RM'000
<b>Indebtedness</b>		
<b>Secured and guaranteed:</b>		
Term loan	3,763	4,377
Bank overdraft	765	765
Hire purchase payable	4,860	6,048
Trade line	19,603	19,603
<b>Unsecured and guaranteed:</b>		
Term loan	2,317	2,317
Bank overdraft	1,474	1,474
Amount owing to substantial shareholder, LHH	4,211	4,211
Trade line	6,600	6,600
	43,593	45,395
<b>Capitalisation</b>		
Shareholders' equity	42,217	57,792
<b>Total capitalisation and indebtedness</b>	85,810	103,187

The indirect and contingent liabilities of our Group are set out in Section 8.3.3.8 of this Prospectus.

### 8.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS

The management's discussion and analysis of financial condition, results of operations and prospects should be read in conjunction with the accompanying notes and assumptions set forth in Section 8.4 of this Prospectus. This discussion and analysis contain data derived from historical data, which may not be reflective of the future results, and as well as forward-looking statements, which are subject to uncertainties and contingencies. Factors that might cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 3 of this Prospectus.

#### 8.3.1 Overview

We have established ourselves as a supplier of eggs. Based on the IMRR, we ranked number two (2) and number five (5) in terms of market share for generic and premium eggs, respectively for the calendar year 2007.

Our customer base are mainly wholesalers who on-sell the eggs to retailers. Our customers are mainly Malaysians, even though we have penetrated the Singapore and Hong Kong market.

#### *Revenue*

We derive our revenue primarily from poultry and trading. Our revenue increased from RM101.26 million in FYE 31 March 2006 to RM112.64 million in FYE 31 March 2007, an increase of RM11.38 million or 11.23%, and from RM112.64 million in FYE 31 March 2007 to RM159.34 million in FYE 31 March 2008, an increase of RM46.70 million or 41.46%.

## 8. FINANCIAL INFORMATION (Cont'd)

Our business activities can be segmented into the following:

(i) Poultry segment

Our poultry segment comprises sale of eggs, animal feeds and paper egg trays. Our revenue is mainly derived from the sale of eggs. The farming activities of our Group are supported by manufacturing and marketing of feeds, manufacturing and marketing of paper egg trays and the distribution of animal health products, which has successfully integrated with the farming activities of our Group. Hence, this integrated layer farming business has afforded our Group a more efficient management of the supply chain, lower cost of production and improved productivity.

(ii) Trading segment

Our trading segment comprises of distribution of animal health products. Our Group mainly supplies animal health products locally.

Our revenue is mainly derived from the local market. Please refer to Sections 4.3.9.1 and 4.6 of this Prospectus for the details of our principal markets and major customers.

The main factors that affect our revenue include the following:

- (i) Our dependency on the egg selling price. Participants in the layer farming industry are price takers. The egg selling price is primarily determined by the market forces, i.e. the participants in the layer farming industry have no choice but to follow the market price. The Federation of Livestock Farmers' Association of Malaysia ("FLFAM") will issue a price guide on weekly basis based on the demand and supply conditions in the market.
- (ii) Our production capacity.
- (iii) Our ability to compete successfully with our competitors.
- (iv) Demand for our products, which may be influenced by an outbreak of disease in livestock and food scares regionally and worldwide, such as Avian Influenza.

The above should be read in conjunction with Section 3 of this Prospectus.

### *Cost of goods sold*

The main components of our cost of goods sold are direct materials, direct labour, trading merchandise and production overheads.

Our cost of goods sold from FYE 31 March 2006 to FYE 31 March 2008 were as follows:

FYE 31 March	<-----2006----->		<-----2007----->		<-----2008----->	
	RM'000	%	RM'000	%	RM'000	%
<b>Cost of goods sold</b>						
Direct materials	65,732	81.95	74,588	80.36	109,935	82.20
Direct labour	2,511	3.13	3,255	3.51	4,140	3.10
Trading merchandise	4,214	5.25	5,524	5.95	9,156	6.85
Production overheads	7,751	9.67	9,446	10.18	10,507	7.85
	<b>80,208</b>	<b>100.00</b>	<b>92,813</b>	<b>100.00</b>	<b>133,738</b>	<b>100.00</b>

Our direct materials costs mainly comprise the purchase of ingredients especially maize, soya bean, and corn gluten, for the feeds to feed the layer chickens. Direct materials costs, the largest component of our cost of goods sold, constituted approximately 81.95%, 80.36% and 82.20% of our cost of goods sold for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008 respectively.

## 8. FINANCIAL INFORMATION (Cont'd)

Our direct labour costs comprises mainly employee benefit expenses for our staff who are directly involved in poultry farming. Employee benefit expenses comprise mainly salaries, welfare benefits and other employee benefits. We manage our direct labour workforce to suit our farming requirements. Direct labour costs constituted approximately 3.13%, 3.51% and 3.10% of our cost of goods sold for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008.

Our trading merchandise comprises the purchase of animal health products for our trading segment such as antibiotic, feed additive, shampoo, vitamin and etc. It accounted for approximately 5.25%, 5.95% and 6.85% of our cost of goods sold for the FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

Our production overheads mainly comprise depreciation of those fixed assets used for production purposes such as egg grading machines, egg tray forming machines, feedmill machine systems and farming equipment, utilities such as electricity and water incurred by the poultry farms, upkeep and maintenance costs. Production overheads constituted approximately 9.67%, 10.18% and 7.85% of our cost of goods sold for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008 respectively.

The main factors that affect our cost of goods sold include the following:

- (i) Fluctuations in the prices of ingredients. Main components of the ingredients are soya bean and maize, whereby these are commodity products.
- (ii) Our ability to control our egg production efficiency rate.
- (iii) Our ability to control the mortality rate of the layer chicken.
- (iv) Our ability to control our costs.

The above should be read in conjunction with Section 3 of this Prospectus.

### *Other operating income*

We recorded other operating income of approximately RM0.09 million, RM0.29 million and RM0.33 million for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively. Other operating income mainly consists of gain on foreign exchange, gain on disposal of property, plant and equipment and sales of scraps. It represented 0.09%, 0.26% and 0.21% of our revenue for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

### *Operating expenses*

Our operating expenses from FYE 31 March 2006 to FYE 31 March 2008 were as follows:

FYE 31 March	<-----2006----->		<-----2007----->		<-----2008----->	
	RM'000	%	RM'000	%	RM'000	%
<b>Operating expenses</b>						
Employee benefits expenses (excluding Director's Remuneration)	2,791	43.60	3,028	44.26	4,030	46.11
Director's Remuneration	1,081	16.89	821	11.99	1,015	11.62
Depreciation	370	5.78	391	5.72	404	4.62
Transportation costs	370	5.78	595	8.70	1,029	11.78
Maintenance expenses	393	6.14	443	6.48	520	5.95
Advertising costs	120	1.88	138	2.00	302	3.46
Entertainment and traveling expenses	115	1.80	159	2.33	245	2.80
Other operating expenses	1,160	18.13	1,267	18.52	1,194	13.66
	<u>6,400</u>	<u>100.00</u>	<u>6,842</u>	<u>100.00</u>	<u>8,739</u>	<u>100.00</u>

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**8. FINANCIAL INFORMATION (Cont'd)**

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Our operating expenses comprise employee benefits expenses, director's remuneration, depreciation, transportation costs, maintenance expenses, advertising costs, entertainment and traveling expenses and other operating expenses.

*Employee benefits expenses*

Employee benefits expenses comprised salaries, welfare benefits for our managerial staff, administrative and accounting staff. Employee benefits expenses, excluding directors' remuneration, which accounted for 43.60%, 44.26% and 46.11% of our operating expenses for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively. Directors' remuneration accounted for 16.89%, 11.99% and 11.62% of our operating expenses for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

*Depreciation*

Depreciation consists of depreciation for fixed assets used for the purposes of administration, selling and distribution. These accounted for 5.78%, 5.72% and 4.62% of our operating expenses for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

*Transportation costs*

Transportation costs mainly comprised of delivery charges for goods sold to our customers in various locations. These accounted for 5.78%, 8.70% and 11.78% of our operating expenses for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively. The significant increase from FYE 31 March 2007 to FYE 31 March 2008 was mainly due to the increase in export sales to Singapore; and full year effect on the sales of eggs from second farm of Success Century which commenced operations in September 2006.

*Maintenance expenses*

Maintenance expenses mainly comprised electrical work repairs, upkeep and repairs to the office building and facilities, maintenance and repairs to motor vehicles. These accounted for 6.14%, 6.48% and 5.95% of our operating expenses for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

*Advertising costs*

Advertising costs mainly comprised advertisement, promotion and exhibition charges. These accounted for 1.88%, 2.00% and 3.46% of our operating expenses for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

*Entertainment and traveling expenses*

Entertainment and traveling expenses mainly include entertainment expenses, travel related costs and transport claims by our sales and marketing personnel. These accounted for 1.80%, 2.33% and 2.80% of our operating expenses for FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

*Other operating expenses*

Other operating expenses, which comprised mainly audit fee, professional fee, insurance, telephone charges, rental and bank charges and other general office expenses, accounted for 18.13%, 18.52% and 13.66% of our Group's total operating expenses in FYE 31 March 2006, FYE 31 March 2007 and FYE 31 March 2008, respectively.

*Finance costs*

Our finance costs mainly comprise interest incurred on our bank borrowings. The amount of bank borrowings outstanding as at the end of the last three (3) FYE 31 March 2006, 2007 and 2008 were