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Proposed Joint Venture for oil palm cultivation of approximately 98,300 hectares in Kabupaten Ketapang, Provinsi Kalimantan Barat, Republic of Indonesia



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Proposed Joint Venture for oil palm cultivation of approximately 98,300 hectares in Kabupaten Ketapang, Provinsi Kalimantan Barat, Republic of Indonesia

1. INTRODUCTION

The Board of Directors of Asiatic Development Berhad (“Asiatic” or the “Company”) is pleased to announce that several of its subsidiaries had on 8 June 2005 entered into the following joint venture agreements (the “Joint Venture Agreements”) respectively for the purpose of developing approximately 98,300 hectares of agricultural land into oil palm plantation in Kabupaten Ketapang, Provinsi Kalimantan Barat, Republic of Indonesia (“Proposed Joint Venture”):

- (i) Joint Venture Agreement between Asiatic Equities (S’pore) Pte Ltd (“AEquities”), a wholly-owned subsidiary of Asiatic, and PT Sawit Unggul (“PTUnggul”) whereby AEquities shall subscribe for 7,000 ordinary shares of Rp100,000 each representing 70% of the enlarged issued and paid-up capital in PT Sepanjang Inti Surya Indah (“PTIndah”) at the nominal value of the shares;
- (ii) Joint Venture Agreement between Sri Nangatayap Pte Ltd (“Nangatayap”), a wholly-owned subsidiary of Asiatic, and PT Sawit Bandel (“PTBandel”) whereby Nangatayap shall subscribe for 7,000 ordinary shares of Rp100,000 each representing 70% of the enlarged issued and paid-up capital in PT Sepanjang Inti Surya Mulia (“PTMulia”) at the nominal value of the shares;
- (iii) Joint Venture Agreement between Sri Kenyalang Pte Ltd (“Kenyalang”), a wholly-owned subsidiary of Asiatic, and PT Sawit Bagus (“PTBagus”) whereby Kenyalang shall subscribe for 7,000 ordinary shares of Rp100,000 each representing 70% of the enlarged issued and paid-up capital in PT Sepanjang Inti Surya Utama (“PTUtama”) at the nominal value of the shares;
- (iv) Joint Venture Agreement between Ketapang Holdings Pte Ltd (“KHoldings”), a wholly-owned subsidiary of Asiatic, and PT Sawit Mandira (“PTMandira”) whereby KHoldings shall subscribe for 7,000 ordinary shares of Rp100,000 each representing 70% of the enlarged issued and paid-up capital in PT Sawit Murni (“PTMurni”) at the nominal value of the shares; and
- (v) Joint Venture Agreement between Sandai Maju Pte Ltd (“Sandai”), a wholly-owned subsidiary of Asiatic, and PT Sawit Prima (“PTPrima”) whereby Sandai shall subscribe for 7,000 ordinary shares of Rp100,000 each representing 70% of the enlarged issued and paid-up capital in PT Sawit Sehat (“PTSehat”) at the nominal value of the shares.

AEquities, Nangatayap, Kenyalang, KHoldings and Sandai are hereinafter referred to singularly as the “Asiatic’s Subsidiary” and collectively as the “Asiatic’s Subsidiaries”.

PTUnggul, PTBandel, PTBagus, PTMandira and PTPrima are hereinafter referred to singularly as the “Indonesian Shareholder” and collectively as the “Indonesian Shareholders”.

PTIndah, PTMulia, PTUtama, PTMurni and PTSehat are hereinafter referred to singularly as the “Joint Venture Company” and collectively as the “Joint Venture Companies”.

The subscription monies payable by Asiatic’s Subsidiaries into each Joint Venture Company will amount to Rp700 million or approximately RM292,000.

2. DETAILS OF THE PROPOSED JOINT VENTURE

2.1 Structure of the Joint Venture Companies

Under the Joint Venture Agreements, the Asiatic’s Subsidiaries or their nominees shall subscribe for, and Indonesian Shareholders shall cause each of the Joint Venture Companies to issue and allot to the

Asiatic's Subsidiaries, 7,000 new ordinary shares of Rp100,000 each representing 70% of its enlarged issued and paid-up share capital at the nominal value of the shares. The resultant shareholding structure of the Joint Venture Companies are as follows:

| Joint Venture Company | Share Capital | | Asiatic's Subsidiaries | | Indonesian Shareholders | |
|-----------------------|---------------|--------------------|------------------------|----------|-------------------------|----------|
| | Authorised | Issued and Paid-up | Name | % Equity | Name | % Equity |
| | Rp million | Rp million | | | | |
| PTIndah | 1,000 | 1,000 | AEquities | 70% | PTUnggul | 30% |
| PTMulia | 1,000 | 1,000 | Nangataya | 70% | PTBande | 30% |
| PTUtama | 1,000 | 1,000 | Kenyalang | 70% | PTBagus | 30% |
| PTMurni | 1,000 | 1,000 | KHolding | 70% | PTMandi | 30% |
| PTSehat | 1,000 | 1,000 | Sandai | 70% | PTPrima | 30% |

The total subscription monies payable by Asiatic's Subsidiaries into all the five (5) Joint Venture Companies of approximately RM1.46 million computed based on Rp700 million or RM292,000 per Joint Venture Company are to be satisfied wholly in cash and to be financed by Asiatic using internally generated funds. Save as disclosed in the announcement, there are no liabilities to be assumed by Asiatic's Subsidiaries with respect to the Proposed Joint Venture.

2.2 Information on the Joint Venture Companies

As at 8 June 2005, the details of the Joint Venture Companies, all of which were incorporated in the Republic of Indonesia are as follows:

| Joint Venture Company | Date of Incorporation | Share Capital | | Indonesian Shareholders | |
|-----------------------|-----------------------|---------------|--------------------|-------------------------|----------|
| | | Authorised | Issued and Paid-up | Name | % Equity |
| | | Rp million | Rp million | | |
| PTIndah | 25 May 2000 | 1,000 | 300 | PTUnggul | 100% |
| PTMulia | 25 May 2000 | 1,000 | 300 | PTBandel | 100% |
| PTUtama | 7 June 2000 | 1,000 | 300 | PTBagus | 100% |
| PTMurni | 30 July 2004 | 1,000 | 300 | PTMandira | 100% |
| PTSehat | 30 July 2004 | 1,000 | 300 | PTPrima | 100% |

The object of the Joint Venture Companies is to engage in plantation business in Indonesia including cultivation of oil palm, operation of palm oil mills, production, sale and marketing of palm oil and palm products and any other related downstream activities. The Joint Venture Companies, through the Indonesian Shareholders, have secured *Izin Lokasi* ("IL") or Location Permit and *Izin Usaha Perkebunan*

(“IUP”) or Plantation Business License for five (5) more or less contiguous parcels of land of various sizes in Kabupaten Ketapang, Provinsi Kalimantan Barat, Republic of Indonesia (the “Land”) as follows:

| Joint Venture Company | Land Area (hectares) |
|-----------------------|----------------------|
| PTIndah | 19,900 |
| PTMulia | 19,800 |
| PTUtama | 19,700 |
| PTMurni | 19,500 |
| PTSehat | 19,400 |
| Total | 98,300 |

2.3 Salient terms of the Joint Venture Agreements

2.3.1 The Proposed Joint Venture is subject to the following conditions being obtained within 12 months from the date of the Joint Venture Agreements or such period as may be mutually agreed by Asiatic’s Subsidiaries and the Indonesian Shareholders:

- the approval of Bank Negara Malaysia;
- the letter of confirmation from local government of Kabupaten Ketapang on the Proposed Joint Venture;
- the approval of *Badan Koordinasi Penanaman Modal* (“BKPM”) or Investment Coordinating Board in Indonesia;
- the issuance of the *Hak Guna Usaha* (“HGU”) certificates or Right/Title to Cultivate the Land; and
- any other approvals, licenses and permits required for the Proposed Joint Venture.

The Proposed Joint Venture is also subject to the due diligence study on the Land and the Joint Venture Companies being to the satisfaction of Asiatic’s Subsidiaries and the representations and warranties made by the Indonesian Shareholders in relation to the Joint Venture Agreements being true and accurate in all material respects.

2.3.2 The Land will be developed into oil palm plantation over a period of 10 years. The Indonesian Shareholders will procure and maintain the ownership and HGU of the Land in the name of the Joint Venture Companies at a pre-determined valuation of RM1,500 per hectare in Rupiah equivalent. The Indonesian Shareholders will not be entitled to claim any excess amount incurred over the pre-determined value. Such contribution in land shall form 30% of the total contribution to each Joint Venture Company. In addition, the Indonesian Shareholders will be responsible for procuring all approvals in the name of the Joint Venture Companies that are necessary for, amongst others, undertaking the palm oil business.

The HGU term for the Land shall not be less than 35 years with a right of extension for another 25 years. The usable area (including area suitable for oil palm cultivation and area reserved for roads, buildings, palm oil mills and any other relevant infrastructure) shall not be less than 95% of the total gross area of the Land as stated in the HGU certificates. The value of the Land as a contribution from the Indonesian Shareholders shall be adjusted proportionately for unusable area in excess of 5%.

- 2.3.3 Asiatic's Subsidiaries will contribute cash in a progressive manner in accordance with the development plan of the Land. Their contribution will be up to RM3,500 per hectare in Rupiah equivalent but shall at no time exceed 70% of the total contribution to each Joint Venture Company.
- 2.3.4 The above contribution, whether in land or in cash, shall take the form of Class B share, or shareholders' equity advance, or a combination of both, all of which carry no voting power.
- 2.3.5 The Asiatic's Subsidiaries and Indonesian Shareholders undertake that each Joint Venture Company shall enter into a Management Service Agreement with their respective Asiatic's Subsidiary whereby the Asiatic's Subsidiary or its affiliate shall be appointed as the sole and exclusive provider of management services to the Joint Venture Companies.

The appointment shall be for an initial period of 30 years and is renewable for another 30 years upon expiry. Thereafter, the management service company shall have the first right of refusal to provide such services to the Joint Venture Companies on terms not less favourable than the prevailing terms.

2.4 Information on the Indonesian Shareholders

As at 8 June 2005, the details of the Indonesian Shareholders, all of which are incorporated in the Republic of Indonesia are as follows:

| Indonesian Shareholders | Date of Incorporation | Share Capital | |
|-------------------------|-----------------------|--------------------------|--------------------------------------|
| | | Authorised Rp million | Subscribed and Paid-up Rp million |
| PTUnggul | 21 March 2005 | 1,000 | 300 |
| PTBandel | 21 March 2005 | 1,000 | 300 |
| PTBagus | 21 March 2005 | 1,000 | 300 |
| PTMandira | 31 March 2005 | 1,000 | 300 |
| PTPrima | 31 March 2005 | 1,000 | 300 |

The Indonesian Shareholders are currently investment holding companies. The Indonesian Shareholders are wholly-owned subsidiaries of the Sepanjang Group, a respectable palm oil producer in the Republic of Indonesia. To date, Sepanjang has developed two oil palm plantations with planted area of 22,000 hectares and one palm oil mill located in Kabupaten Sanggau, Provinsi Kalimantan Barat and another oil palm plantation of 12,000 hectares in Kabupaten Muara Enim, Provinsi Sumatra Selatan.

2.5 Information on the Asiatic's Subsidiaries

As at 8 June 2005, the details of the Asiatic's Subsidiaries, all of which are wholly-owned subsidiaries of Asiatic and incorporated in Republic of Singapore are as follows:

| Asiatic's Subsidiaries | Date of Incorporation | Share Capital | |
|------------------------|-----------------------|------------------------|---------------------------|
| | | Authorised SGD '000 | Issued and Paid-up SGD |
| AEquities | 2 June 2005 | 100 | 2 |
| Nangatayap | 2 June 2005 | 100 | 2 |
| Kenyalang | 2 June 2005 | 100 | 2 |
| KHoldings | 2 June 2005 | 100 | 2 |
| Sandai | 3 June 2005 | 100 | 2 |

Each of the Asiatic's Subsidiaries has an authorised share capital of SGD100,000 (or approximately RM230,000) divided into 100,000 ordinary shares having a nominal value of SGD1.00. They are currently investment holding companies.

3. RATIONALE FOR THE PROPOSED JOINT VENTURE

The Proposed Joint Venture is in line with Asiatic's long term strategy in increasing its interest in the palm oil industry in line with its belief in the continued prospects of the industry. The Proposed Joint Venture represents another positive step by the Asiatic group of companies towards realising its vision of establishing itself as a major player in the industry.

4. INDUSTRY PROSPECT

The future prospects of the oil palm business are expected to be reasonably positive mainly due to the following reasons:

- the expected continued growth in the demand for edible oils in tandem with the increase in the worldwide population, which will be partly fulfilled by palm oil;
- the increasing share of palm oil in the edible oils market in view of its nutritional strength and health attributes;
- the viability of crude palm oil conversion to biodiesel underpinned by environmental benefits and high price of fossil oil; and
- the competitiveness of palm oil in terms of yield and cost efficiency as compared to other edible oils.

5. RISK FACTORS

The risks relating to the investments in the Joint Venture Companies are similar to the risks to which Asiatic is generally exposed by virtue of its existing palm oil-related operations. Such risks include fluctuations in crude palm oil and palm kernel prices, unfavourable local and global weather patterns and diseases or crop pests. Nonetheless, in addition to the risks relating to the palm oil industry, the additional risk factors with respect to the Proposed Joint Venture are mainly in respect of investment in a foreign country.

The future performance of the Joint Venture Companies is subject to the economic, political, regulatory, taxation and environmental conditions of Indonesia. Changes to these conditions as well as other changes to the operating environment may adversely affect the performance of the Joint Venture Companies. Further, the repatriation of the investment and potential profits derived by the Asiatic group from the Proposed Joint Venture will also be subject to the relevant policies of the Indonesian government as at the point of repatriation. The impact of the results of the Joint Venture Companies to Asiatic will also be dependent on the exchange rate between Rp to RM prevailing on the relevant dates.

6. FINANCIAL EFFECTS

6.1 Share Capital and Substantial Shareholders' Shareholding

The Proposed Joint Venture will not have any effect on the share capital or the substantial shareholders' shareholding in the Company.

6.2 Net Tangible Assets

The Proposed Joint Venture will not have any material impact on the net tangible assets of the Asiatic group based on its audited accounts for the financial year ended 31 December 2004.

6.3 Earnings

The Proposed Joint Venture is not expected to have any material impact on the earnings of the Asiatic group for the financial year ending 31 December 2005 and is expected to contribute positively towards the earnings of the Group in the long-term.

7. APPROVALS REQUIRED

The approvals required for the Proposed Joint Venture are set out in Section 2.3.1 of this announcement.

8. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

None of the directors or persons connected to the directors of the Company has any interest, direct or indirect, in the Proposed Joint Venture. To the best of knowledge of the directors, none of the substantial shareholders or persons connected to the substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Joint Venture.

9. DIRECTORS' RECOMMENDATION

The Directors, after careful deliberation, are of the opinion that the Proposed Joint Venture is in the best interest of the Company.

10. ESTIMATED TIME FRAME FOR COMPLETION

The Proposed Joint Venture is expected to be completed within 12 months upon execution of the Joint Venture Agreements.

11. DOCUMENTS FOR INSPECTION

The Joint Venture Agreements will be available for inspection at the registered office of the Company during normal office hours on any working day for a period of three (3) months commencing from the date of this announcement.

TAN SRI MOHD AMIN BIN OSMAN
Chairman
Asiatic Development Berhad