

EXECUTIVE SUMMARY

PalmSource was established in September 2004 in Malaysia to provide engineering and turnkey construction services of the *micro-pulp mills* that convert waste from oil palm biomass into a revenue-generating stream. The palm oil industry produces a large amount of biomass where one portion of it is in the form of empty fruit bunches (EFB). The traditional methods of disposing the EFB were through indiscriminate dumping into rivers and areas around the oil palm estate. However, these pose an environmental problem to the industry.

Together with our strategic partner, Universiti Sains Malaysia (USM), PalmSource has developed a technology called the NEWPAPER™ process to convert EFB into pulp. The extracted fiber, known as EFB pulp, is then marketed to the local paper industry as raw material for their paper production. Unlike typical pulp making processes that make use of very toxic chemicals to bleach the pulp, the chemicals used in the NEWPAPER™ process are non-toxic and break down into environmental friendly end products.

PalmSource's target customers are the oil palm plantation companies with their own palm oil mills. There are currently 410 palm oil mills located throughout Malaysia. Based on a selling price of RM 15million for each *micro-pulp mill*, the market size is potentially worth around RM 6.2 billion (US\$ 1.6billion) in Malaysia alone. PalmSource is also looking at Indonesia and Thailand, two of the major palm oil producing countries in the world, where the *micro-pulp mills* could potentially be marketed.

Conventional pulp mills are necessarily large to justify returns to scale. Thus, it is not surprising that they are also capital intensive. Despite the high demand for pulp and paper in Malaysia, wherein some US\$ 1billion is imported annually, there are only 2 pulp mills in the country. The high costs involved have posed an effective entry barrier into the pulp and paper industry. By contrast, the *micro pulp mill* is optimized to handle the amount of EFB produced in a typical sized palm oil mill. It is a viable proposition to our customers who can expect a payback in just 2 years *PalmSource* and an IRR of 37% for their initial investments of RM 15 million (USD 3.9 million) in the *micro-pulp mill*.

The unique features of PalmSource's concept of the *micro-pulp mill* are more than just its affordability and cost advantage. Post-2009 (Year 5), the Management envisions a network of *micro-pulp mills* supplying EFB pulp to PalmSource, who could play a role in its distribution and downstream processing to further add value to the EFB pulp. Combined with an initial public offer (IPO), this strategy could provide an impetus for the next phase of PalmSource's growth, as well as an excellent exit opportunity to our potential investors.

PalmSource invites investors who share in its vision to participate in this exciting venture. It is seeking funding for RM 1,200,000 (US\$ 316,000) in exchange for a 40% equity in the company. The funding will primarily go towards the pilot plant

and development expenses. In return, the investors will be entitled to 2 Board seats. Investors can look forward to a dividend payout of 2% from 2007 (Year 3) onwards when PalmSource becomes profitable. An exit strategy comprising of an IPO in 2009 (Year 5) would yield an IRR of 128% and a positive NPV of RM 7.7million (~US\$2 million) when discounted at 30%. This financial scenario is possible in view of the generous tax and investment incentives provided by the Government of Malaysia to exploit oil palm biomass which is currently untapped.

PalmSource has a solid and committed Management Team on board. Comprising of 5 members, the Management Team comes from diverse professional backgrounds – engineers, lawyer, scientist and accountant – and brings along with them a wealth of experience to lead the company. As founders and shareholders in PalmSource, they possess complementary strengths and have what it takes to make this venture a success. The Management will make a concerted effort to attract capable executives to join PalmSource at the line and middle management positions. Operational cost control and Total Quality Management (TQM) will be conscientiously pursued as strategic drivers for PalmSource to become a leader in the industry.