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MENTIGA

MENTIGA CORPORATION BERHAD (10289-K)
(INCORPORATED IN MALAYSIA)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF MENTIGA CORPORATION BERHAD AND ITS SUBSIDIARIES TO INCLUDE DURIAN PLANTATION, PRODUCTION AND DISTRIBUTION

The resolution in respect of the above proposal will be tabled at the forthcoming Forty-Eighth Annual General Meeting (“AGM”) of the Company to be held at Carlton 6, Level 2, The Ritz-Carlton Hotel, Kuala Lumpur, 168, Jalan Imbi, 55100 Kuala Lumpur on Thursday, 2 May 2019 at 2.30 p.m. The Notice of the AGM together with the Form of Proxy is sent to you together with this Circular.

A member entitled to attend and vote at the AGM is entitled to appoint a proxy or proxies (where applicable) to attend and vote on his/her behalf. In such event, the Form of Proxy should be completed and lodged at the Company’s registered office at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the AGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the AGM should you subsequently wish to do so.

Last day and time for lodging the Form of Proxy : Tuesday, 30 April 2019 at 2.30 p.m.
Date and time of the AGM : Thursday, 2 May 2019 at 2.30 p.m.

Unless otherwise indicated, the following definitions shall apply throughout this Circular:-

Act	: The Companies Act, 2016 as amended from time to time
AGM	: Annual General Meeting
Board of Directors or “Board”	: Board of Directors of the Company
Bursa Securities	: Bursa Malaysia Securities Berhad (Company No. 635998-W)
CMSA	: Capital Markets and Services Act 2007
Director	: A director as defined in Section 2(1) of the CMSA and includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon, a director or a chief executive of Mentiga Corporation Berhad and its subsidiary
Durian Businesses	: Durian plantation, production and distribution
Jerantut Land	: A land held under H.S. (D) 5750, PT9965 Mukim of Ulu Cheka, District of Jerantut, State of Pahang, which is about 35 km from Jerantut town and 5 km from Demak town. It is a secondary jungle with total area of 1,570.82 hectares. The said land is a leasehold property with 99 years lease expiring on 9 August 2116, free from all encumbrances
Listing Requirements	: Main Market Listing Requirements of Bursa Securities
LPD	: 18 March 2019, being the latest practicable date prior to the issuance of this Circular
MCB or “the Company”	: Mentiga Corporation Berhad (Company No. 10289-K)
MCB Group or “the Group”	: MCB and its subsidiaries, collectively
NA	: Net assets
Proposed Diversification	: Proposed diversification of the principal activities of the MCB Group to include Durian Businesses
RM and sen	: Ringgit Malaysia and sen respectively, the legal currency in Malaysia
Share(s)	: Ordinary share(s) in MCB
Shareholders	: Shareholders of MCB

All references to “you” in this Circular are referred to MCB’s shareholders.

Words importing the singular shall, where applicable, include the plural and vice versa, and words referring to the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include companies or corporations, unless otherwise specified.

Any enactment referred to in this Circular is a reference to that enactment currently enforced and as may be amended from time to time and any re-enactment thereof.

All references to dates and time in this Circular are references to dates and time in Malaysia, unless otherwise stated.

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MENTIGA CORPORATION BERHAD

(Company No: 10289-K)
(Incorporated in Malaysia)

Registered Office:

Unit 30-01, Level 30, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

10 April 2019

Board of Directors:

YB. Dato' Sri DiRaja Haji Adnan bin Haji Yaakob (*Non-Independent Non-Executive Chairman*)
Tuan Haji Yaacob bin Sa'rani (*Managing Director*)
YH. Dato' Haji Mohd Ali Hanafiah bin Sh Ruji (*Non-Independent Non-Executive Director*)
YH. Dato' Haji Muhammad Nasir bin Puteh (*Non-Independent Non-Executive Director*)
YH. Dato' Haji Mohd Nazari bin Yunus (*Non-Independent Non-Executive Director*)
YH. Dato' Bahudin bin Mansor (*Independent Non-Executive Director*)
YH. Dato' Hazli bin Ibrahim (*Independent Non-Executive Director*)

To the Shareholders of MCB,

Dear Sir/ Madam,

PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF MENTIGA CORPORATION BERHAD AND ITS SUBSIDIARIES TO INCLUDE DURIAN PLANTATION, PRODUCTION AND DISTRIBUTION

1. INTRODUCTION

On 8 April 2019, the Company has announced to Bursa Securities that the Group is proposing to diversify its principal activities to include durian plantation, production and distribution.

The purpose of this Circular is to provide you with details of the Proposed Diversification and to seek your approval for the resolution to be tabled at the forthcoming AGM.

Shareholders are advised to read the contents of this Circular carefully before voting on the resolution pertaining to the Proposed Diversification to be tabled at the forthcoming AGM.

2. PROPOSED DIVERSIFICATION

2.1 Background

The Group is principally engaged in the business of oil palm plantation, mining and general construction and developer. MCB began as a reputable timber related manufacturer in the 70's and 80's as demand for such products were high. To maintain the profitability and survival of the Company, MCB has to adapt with the changing economic landscape and availability of resources by embarking in different business segments such as construction, mining and plantation.

Timber segment is still important to MCB as it is our main revenue source to develop other new segments. However, going forward MCB intends to reduce its dependency on timber segment and turn to generate revenue and profit from mining, plantation and agroforestry segments.

The Group now intends to diversify and expand its existing principal activities to include Durian Businesses so as to enhance the Group's prospect moving forward. The Board anticipates that the Group's Durian Businesses may in future result in a diversion of 25% or more of the NA of the Group and/or may contribute 25% or more of the net profits of the Group.

Paragraph 10.13(1) of the Listing Requirements states that a listed issuer must obtain its shareholders' approval in a general meeting for any transaction or business arrangements which might reasonably be expected to result in either:

- a) the diversion of 25% or more of the NA of the listed issuer to an operation which differs widely from those operations previously carried on by the listed issuer; or
- b) the contribution from such operation of 25% or more of the net profits of the listed issuer.

As such, MCB wishes to obtain your approval for the Proposed Diversification pursuant to the Listing Requirements. Nonetheless, the Group remains committed to its existing business and will continuously endeavour to improve its business performance.

2. PROPOSED DIVERSIFICATION (CONTINUED)

2.2 Key Personnel

MCB plans to develop its entire Jerantut Land with durian farms in view of the challenging market for oil palm worldwide. The terrain, climate, availability of water supply of the Jerantut Land and the surrounding area are positively identified as suitable for durian cultivation. A soil test will be carried out in April 2019.

YH. Dato' Haji Muhammad Nasir Bin Puteh and Tuan Haji Yaacob bin Sa'rani, the current Non-Independent Non-Executive Director and Managing Director of MCB respectively, have experience in the durian plantation for more than four (4) years. They have sufficient knowledge and experience in the durian plantation, in particular in Musang King D197, and would be able to assist towards the successful of Durian Businesses moving forward.

MCB will seek suitable third-party contractors or partners to develop and manage a portion of the Company's land earmarked for durian plantation. MCB Group will also enter into partnerships or collaborate with third parties for purpose of the Proposed Diversification who could manage the plantation, harvest the fruits, market the fruits and generally maintain all records pertaining to the cost of the Durian Businesses.

As at the date of this Circular, MCB had identified seven (7) potential companies who are third parties ("Partner(s)") that have financial capabilities and expertise to plant and market durian fruits. Each of the six (6) Partners will be allocated 500 acres of land and another Partner of 400 acres of land. MCB will enter into agreements with all the Partners in due course and the expected contribution to be received from each of the Partners will be as follows:

- (a) Commitment fee of RM576.13 per acre on the signing of agreement;
- (b) RM23.22 per acre per year of management fee from the second year to sixth year;
- (c) 30% net profit in the sixth year and seventh year;
- (d) RM1,000 per acre or 30% net profit before tax on the eighth year whichever is the higher;
- (e) RM2,000 per acre or 30% net profit before tax on the ninth year whichever is higher; and
- (f) RM2,500 per acre or 30% net profit before tax on the tenth year to sixtieth year whichever is the higher.

The feasibility and sustainability of the Durian Businesses will highly depend on demands of durian fruits. Notwithstanding the Proposed Diversification, MCB will opt for other crops or plants in the event durian demands and prices drop drastically.

2.3 Details of the Proposed Diversification

MCB has suitable land for durian plantation. The Board of Directors have passion for the fruit and have sufficient knowledge and experience in growing durian trees. In addition, MCB has Partners who have strong financial capabilities and access to markets in China. In view of MCB's readiness on the Proposed Diversification and the recent headwinds in oil palm markets which have adversely affected the Group's revenue, durian plantation was identified as the next new high value crop with great potential.

MCB has therefore engaged a consultant to prepare an Environmental Impact Assessment ("EIA") Report and MCB can start mobilisation work including land clearing once the EIA Report is approved by Environmental Department. The approval is expected to be obtained in September 2019.

Depending on the cultivars, bud grafting durian trees will generally mature and start fruiting between four to six years after planting. MCB is required to obtain State of Pahang's approval to change the land usage from 'Oil Palm Plantation' to 'Agriculture' and will subsequently subdivide the Jerantut Land into 8 parcels for more effective management. MCB has also appointed a land surveyor to attend to the matters of getting approval and subdivision. The process will take approximately two (2) months. Subject to the EIA's approval as stated above and shareholders' approval in the upcoming AGM, MCB is targeting to start land clearing on the Jerantut Land in October 2019 and start planting around June 2020. Durian fruiting is expected to take place between 2024 and 2026, depending on the cultivars and planting techniques.

The prospect of the Group after the Proposed Diversification (based on 500 acres of Jerantut Land) are provided in the following table:

YEAR	PAYMENTS TO MCB	WORK	AGE OF TREE
2019	RM288,065 commitment fee	Approvals	0
2020	RM11,610 management fee	Planting	0
2021 - 2023	RM11,610 management fee	Maintenance	1 - 3
2024 - 2025	RM11,610 management fee and 30% net profit	Maintenance & Harvesting	4 - 5
2026	RM500,000 @ RM 1,000/acre or 30% net profit, whichever is higher	Maintenance & Harvesting	6
2027	RM1,000,000 @ RM 2,000 per acre or 30% net profit, whichever is higher	Maintenance & Harvesting	7
2028 - 2077	RM1,250,000 @ RM 2,500 per acre or 30% net profit whichever is higher	Maintenance & Harvesting	8 - 57
2078	Agreement expires. Contractor or Partner shall leave the site. Whatever remaining trees and structures to remain at site	Maintenance	58

2. PROPOSED DIVERSIFICATION (CONTINUED)

2.3 Details of the Proposed Diversification (Continued)

Minimum income to be generated from 3,881 acres (1,570.82 hectares) of Jerantut Land for the durian plantation is forecasted as follows:

YEAR	INCOME
2026	RM3.881 million
2027	RM7.662 million
2028 - 2078	RM9.703 million

Note: 30% net profit will take care of the potential upswing of production and price as well as the present value of money.

Apart from the Jerantut Land, the Group may use other lands either registered under MCB or its subsidiaries as well as any land granted by the State of Pahang to the Group in future to plant durian trees. Nonetheless, the Group will continue to nurture its existing businesses.

3. RATIONALE FOR THE PROPOSED DIVERSIFICATION

Based on the Industry Overview Report dated 8 April 2019 issued by SMITH ZANDER INTERNATIONAL SDN BHD, durian is a tropical fruit widely grown in South East Asia countries such as Malaysia, Thailand, Indonesia and the Philippines. The supply of durians globally is limited since durians can only be planted in certain tropical countries with suitable climate and soil. There is increasing demand for durians in non-durian native countries which has driven the demand for exports of durian and hence encouraging more local and foreign investments into durian farming in Malaysia.

The Proposed Diversification will enable the Group to diversify into a new business which can provide another stream of income which may in turn improve MCB's shareholder value. The Proposed Diversification would also allow the Group to take advantage of an attractive investment opportunity.

The Board believes that the Proposed Diversification will potentially contribute positively to the Group's future earnings. In addition, the Proposed Diversification may reduce the Group's reliance on its oil palm plantation business which had experienced a sharp fall in revenue contribution due to lower fresh fruit bunches ("FFB") harvest and the problem arising from shortage of labour to harvest the FFB as well as soft crude palm oil ("CPO") prices.

4. RISK FACTORS

(a) Operational / Business risk

Durian trees need a lot of attention in order to grow well. Growers must choose the right location with the right terrain, yearly rainfall, daily temperature and humidity. Durians grow best in 75-80% humidity in areas that receive 1600-4000 mm (63-157 inches) of rainfall per year. Durian trees are susceptible to fungi and insect attacks. As such, the trees need full attention in order to grow well and produce good quality fruits. Planting durian in large scale requires huge capital, a team of planters with the right knowledge and require the ability to market the fruits.

Nevertheless, the Group will monitor operations of the Durian Businesses by adopting wider planting system or changing production method in mitigating such risk. The Group will have a risk owner for Durian Businesses project. The identified and potential inherent risks will be monitored. Risk controls will also be identified, implemented and monitored by Risk Management Committee.

(b) Competition risk

There is potential for reduced revenue or declining margins due to the price, product, promotion or distribution actions of our local competitors local and from neighboring countries. As growers, the Group will adopt the Good Agriculture Practices ("GAP") to ensure selling of premium quality durian fruits. With quality fruits and having end to end marketing plan, the Group should be able to overcome such risk.

The Food and Agricultural Organization of the United Nations defined GAP as a collection of principles to apply for on-farm production and post-production processes, resulting in safe and healthy food and non-food agricultural products, while taking into account the economic, social and environmental sustainability.

In Malaysian context it is known as myGAP ("Malaysian Good Agriculture Practice") under The Ministry of Agriculture. It was launched in 2013. One of the aims of myGap is to ensure that food certified under myGAP will have easier passage for export market. The Group will work towards getting this certification.

4. RISK FACTORS (CONTINUED)

(c) Dependence on key personnel

The growth and success of the future Durian Businesses of the Group, to a large extent, are dependent on the expertise and capabilities of experienced personnel.

Failure to identify and retain key personnel or finding replacement for outgoing key personnel in a timely manner may have an adverse impact on the operations of the Group.

To manage the risk of dependency on key personnel, the Group will seek suitable third-party contractors or partners to develop and manage the durian plantation, including marketing the harvested durian fruits.

Pursuant to the Proposed Diversification, the Group has started employing new staff, specifically for the Durian Businesses. The Group will send staff to attend durian seminars. Moving forward, the Group will also be arranging in-house seminars on durian plantation as well as visiting successful durian plantations in both local and overseas, especially in Thailand.

(d) Economic and regulatory risks

The biggest potential for durian export market now is China. Currently, Malaysia's export share to China's annual import of durian is less than 1%. The Group foresees that government is making continuous progress in getting China's approval in importing durian from Malaysia both in the form of pulp and whole fruits.

A good bilateral arrangement between the two countries is necessary for all trades including durian industry to flourish. Any adverse political environment may lead to regulatory changes resulting in change of the cost-structure and affect the framework of the industry.

Nonetheless, the Group will monitor and review its plans or strategies to adapt to changes in economic and regulatory.

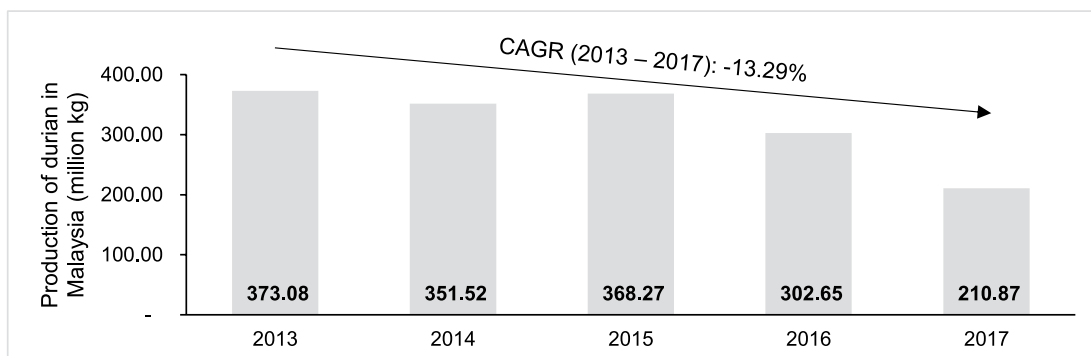
As the financing of the project will be the responsibility of the Partners, the Group is not expected to be significantly affected by any interest rate and foreign exchange risks.

5. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

5.1 Durian market in Malaysia

From 2013 to 2017, durian production in Malaysia witnessed a drop from 373.08 million kilogram ("kg") to 210.87 million kg at a negative compounded annual growth rate ("CAGR") of 13.29%, mainly contributed by major drops in 2016 and 2017. In 2016, the prolonged hot and dry weather from January to April resulted in lower flower blooming and lower harvestable fruits as many unripened durians fell from the trees due to shortage in water and minerals. In 2017, the decrease in durian production was attributed to prolonged rainy weather in the beginning of the year which affected the budding and blooming of flowers.

Chart 1: Durian production in Malaysia (2013 – 2017)



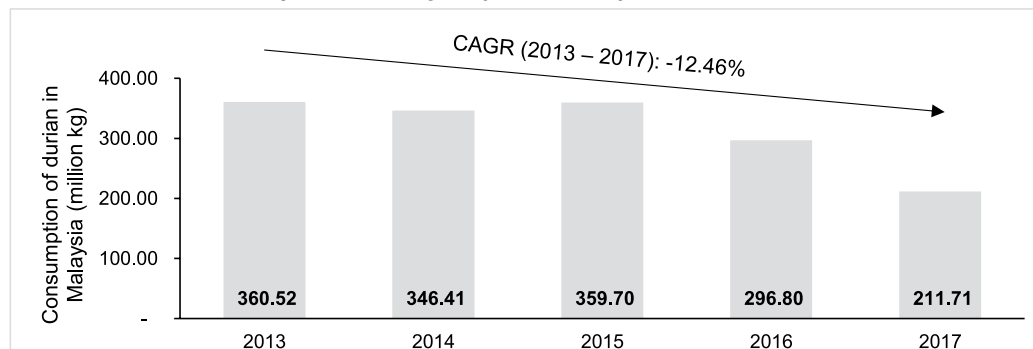
Source: Department of Statistics Malaysia ("DOSM"), SMITH ZANDER

5. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS (CONTINUED)

5.1 Durian market in Malaysia (Continued)

Durian production has a direct impact to the consumption of durians. As such, the durian market in Malaysia, represented by the consumption of durians, also recorded a negative trend between 2013 and 2017 where it decreased from 360.52 million kg in 2013 to 211.71 million kg in 2017 at a negative CAGR of 12.46%.

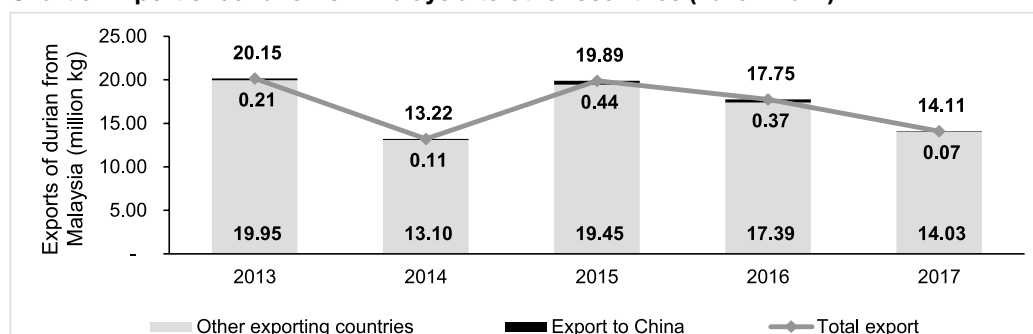
Chart 2: Durian consumption in Malaysia (2013 – 2017)



Source: DOSM, United Nations Commodity Trade (“UN Comtrade”), SMITH ZANDER

The decrease in Malaysia’s durian production between 2013 and 2017 had also negatively impacted Malaysia’s export of durians. During this period, Malaysia’s total export of durians decreased at a negative CAGR of 8.53% from 20.15 million kg to 14.11 million kg, and the export of durians to China also decreased from 0.21 million kg to 0.07 million kg at a negative CAGR of 22.68%. According to the Ministry of Agriculture and Agro-Based Industry, Malaysia aims to export 223,716 tonnes of frozen durian in the form of cloves and paste valued at RM350 million to China in 2019¹.

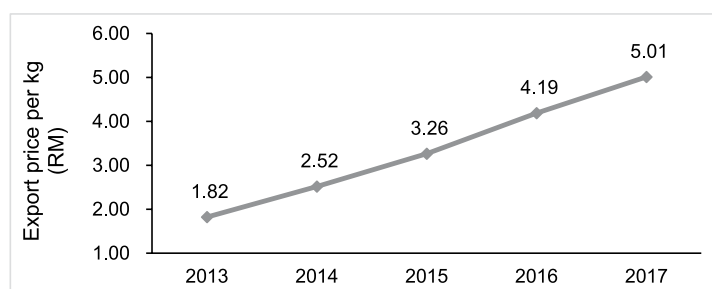
Chart 3: Export of durians from Malaysia to other countries (2013 – 2017)



Source: UN Comtrade, SMITH ZANDER

Despite the decrease in quantity of durian exports from Malaysia, the total export value showed an upward trend, where it grew at a CAGR of 17.80% from RM36.7 million in 2013 to RM70.68 million in 2017, resulting from a rise in the export price per kg of durians, where it increased from RM1.82 in 2013 to RM5.01 in 2017, at a CAGR of 28.79%.

Chart 4: Average export price of durians from Malaysia (2013 – 2017)



Source: Malaysia External Trade Statistics, UN Comtrade, SMITH ZANDER

The rising export price of durians from Malaysia was a result of increasing demand from overseas countries and limited supply of durians from Malaysia due to lower production.

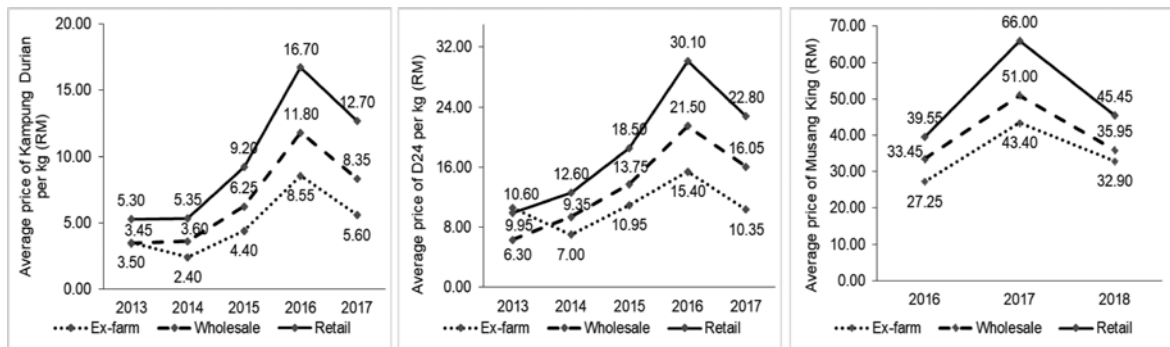
The rising export price of durians also signifies a positive outlook for the durian farming industry where durian farming may generate greater returns from the higher export price, thus encouraging more export driven durian farming activities in Malaysia.

¹ Source: The News Straits Times online news, By Bernama – 13 March 2019
(<https://www.nst.com.my/news/nation/2019/03/468957/ministry-targets-rm350mil-durian-export-china-year>)

5. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS (CONTINUED)

5.1 Durian market in Malaysia (Continued)

Chart 5: Average selling prices of Kampung Durian, D24 and Musang King

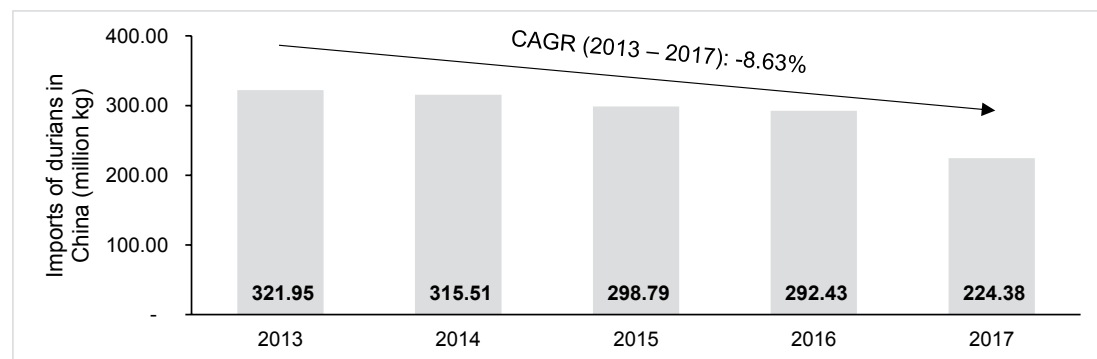


Source: DOSM, Federal Agriculture Marketing Authority ("FAMA")

5.2 Durian Market in China

As China's climate is not suitable for durian farming, it relies solely on durian imports. Thus, durian consumption in China is represented by the imports of durians. From 2013 to 2017, imports of durians in China decreased from 321.95 million kg to 224.38 million kg at a negative CAGR of 8.63%.

Chart 6: Imports of durians in China (2013 – 2017)



Source: UN Comtrade, SMITH ZANDER

Despite the reduction in import volume of durians, the import value increased at a CAGR of 0.41% from USD543.17 million in 2013 to USD552.17 million² in 2017. The decrease in imports of durians in China could be partly due to the lower supply of durians from Southeast Asia. Nevertheless, there is a great potential for Malaysia to increase the export of durians to China, as Malaysia's export of durians accounted for less than 1% of the imports of durians in China from 2013 to 2017.

In August 2018, Malaysia signed an export protocol with China which allows Malaysia to export whole frozen durians to China. Prior to this, only frozen durians in the form of pulp or paste could be exported from Malaysia to China, which had resulted China to import whole frozen durians from Thailand. As the Chinese had limited access to fresh durians in Malaysia, many of them began to travel to Malaysia to join durian tours where they were able to enjoy fresh Musang King during their staycations in durian orchards. Over time, Musang King became a highly sought-after durian in China due to its unique flavors which durians from Thailand does not offer.

In addition, the Alibaba Group and its global sourcing centre for fresh food, Win Chain Supply Management Co., Ltd, signed a memorandum of understanding with Beho Fresh Sdn Bhd to export whole frozen Musang King to China. With this, Musang King will be available on Alibaba Group's multiple retail marketplaces.

All of the above-mentioned initiatives are expected to drive Malaysia's durian export to China in the near future. In order to meet local and international demand of fresh durians, especially the demand from China, the government of Malaysia has introduced several initiatives to encourage more large-scale farming of durians:

- In 2017, interested durian farmers in Sarawak were given Musang King seedlings by the state government to encourage interested farmers to begin planting Musang King durians.
- In 2018, the government of Sarawak announced an allocation of RM2.5 million for the cultivation of Musang King and further distributed Musang King seedlings to farmers.
- Malaysian Durian Festival 2017, a 3-day event held in Nanning, China led by the government of Malaysia to promote durians from Malaysia. This event successfully attracted around 165,000 visitors to sample Musang King durians.

²Source: UN Comtrade

5. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS (CONTINUED)

5.2 Durian Market in China (Continued)

- Malaysia International Durian Cultural Tourism Festival 2017, a 2-day event held in Bentong, Pahang co-organised by the Malaysian government to promote and sell durians, durian-related products and other tropical fruits.
- Penang Durian Fest, a 2-day event co-organised by the Penang state government to promote and sell different types of durians. This durian festival is held annually at different locations in Penang.

Gross domestic product (“GDP”) per capita in China grew from RMB44,791.85 in 2013 to RMB57,352.03 in 2017³ at a CAGR of 6.37%, signifying a growing affluent population with improved overall standards of living. The IMF forecasts that China’s GDP per capita will increase to RMB68,008.40 in 2020 at a CAGR of 5.85% from 2017. The increasing wealth among the population will result in greater spending power and this would be among the drivers for durian consumption in China.

5.3 Outlook and prospects of durian market in Malaysia and China

Durian, also widely known as the king of fruits, is a tropical fruit widely grown in Southeast Asia in countries such as Malaysia, Thailand, Indonesia and the Philippines. While durian is a fruit with an acquired taste due to its unique custardy texture, strong flavour and pungent smell, which may not appeal to everyone, the fruit has become increasingly acceptable and popular in the global markets as durians has been exported to various non-native durian countries including, amongst others, China, Hong Kong, United States and United Kingdom.

The supply of durians globally is limited since durians can only be planted in certain tropical countries with suitable climate and soil for durian farming and the fresh fruits do not have long shelves life to sustain the long distance required for exports. During bad weather, the supply of durian is further limited causing the prices of the fruit to spike. Nevertheless, there is increasing demand for the prized and exotic fruit in non-durian native countries which has driven the demand for exports of durian and encouraging more local and foreign investments into the durian farming industry in Malaysia.

From 2013 to 2017, durian production in Malaysia witnessed a drop from 373.08 million kg to 210.87 million kg at a negative CAGR of 13.29%, mainly contributed by unfavourable weather which led to lower flower blooming and lower harvestable fruits. The reduction in durian production also led to a lower durian consumption in Malaysia and lower export of durians, including export to China. Nevertheless, the total export value showed an upward trend, where it grew at a CAGR of 17.80% from RM36.7 million in 2013 to RM70.68 million in 2017, resulting from a rise in the export price per kg of durians, where it increased from RM1.82 in 2013 to RM5.01 in 2017, at a CAGR of 28.79%. The rising export price of durians signifies a positive outlook for the durian farming industry where durian farming may generate greater returns from the higher export price, thus encouraging more export driven durian farming activities in Malaysia.

From 2013 to 2017, imports of durians in China decreased from 321.95 million kg to 224.38 million kg at a negative CAGR of 8.63%. Despite the reduction in import volume of durians, the import value increased at a CAGR of 0.41% from USD543.17 million in 2013 to USD552.17 million in 2017. The decrease in imports of durians in China could be partly due to the lower supply of durians from Southeast Asia. Malaysia’s export of durians accounted for less than 1% of the imports of durians in China during the same period.

Following the signing of export protocol with China which allows Malaysia to export whole frozen durians to China, it is expected to drive Malaysia’s durian export to China in the near future. In addition, the growing GDP per capita in China also signifies an increasing wealth among the population, which will result in a greater spending power and this would be among the drivers for durian consumption in China. SMITH ZANDER forecasts the consumption of durians in China (which is represented by the imports of durians) to grow to 440.15 million kg in 2020 and 485.61 million kg in 2023.

In order to meet local and international demand of fresh durians, especially the demand from China, the government of Malaysia has introduced several initiatives to encourage more large-scale farming of durians, including distribution of Musang King seedlings to interested farmers, allocation of budget for the cultivation of Musang King and organisation of local and international durian promotional events. As such, Malaysia is positioned to increase the export of durians to China, given the growing interest in durians in China and the initiatives introduced by the Malaysia’s government in promoting Malaysia’s durians.

(Source: The Outlook and Prospects of Durian Market in Malaysia and China is based on SMITH ZANDER’s Industry Overview Report dated 8 April 2019 as engaged by MCB)

6. FINANCIAL EFFECTS OF THE PROPOSED DIVERSIFICATION

6.1 Issued Share Capital and shareholdings of substantial shareholders

The Proposed Diversification will not have any effect on the share capital and substantial shareholders’ shareholdings in MCB as it does not involve any issuance of new shares in the Company.

³Source: International Monetary Fund (“IMF”)

6. FINANCIAL EFFECTS OF THE PROPOSED DIVERSIFICATION (CONTINUED)

6.2 NA and gearing

The Proposed Diversification is not expected to have any immediate effects on the NA and gearing of the Group. However, the profits contribution from future durian plantation plans may have a positive impact on the Group's NA and earnings once the durian fruits are ready for harvesting. The Group's gearing may increase in the event the Group obtains external borrowings to finance the future Durian Businesses.

6.3 Earnings

The Proposed Diversification is not expected to have any immediate effects on the earnings of the Group. However, the Board believes that the Proposed Diversification will contribute positively to the Group's earnings in the future.

7. APPROVALS REQUIRED

The Jerantut Land is currently restricted for oil palm plantation but MCB is in the midst of applying to the Pahang State Executive Council to change the land usage from 'Oil Palm Plantation' to 'Agriculture'. The Proposed Diversification is also subject to the approval of the shareholders at the forthcoming AGM to be convened.

Save as disclosed above, the Proposed Diversification does not require the approval of any other authorities.

8. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED

None of the Directors and major shareholders and/or persons connected with them has any interests, direct or indirect, in the Proposed Diversification.

9. DIRECTORS' STATEMENT AND RECOMMENDATION

After having considered all aspects of the Proposed Diversification including the rationale for the Proposed Diversification, the Board is of the opinion that the Proposed Diversification is in the best interest of the Company.

Accordingly, your Board recommends that you vote in favour of the resolution pertaining to the Proposed Diversification to be tabled at the forthcoming AGM.

10. CORPORATE EXERCISE ANNOUNCED BUT PENDING COMPLETION

Other than the Proposed Diversification, the Company does not have any outstanding corporate exercise which has been announced but not yet completed prior to the printing of this Circular.

11. ESTIMATED TIME FRAME FOR COMPLETION

The Proposed Diversification will take immediate effect upon obtaining shareholders' approval at the forthcoming AGM.

12. AGM

The resolution in respect of the Proposed Diversification will be tabled at the forthcoming AGM of the Company to be held at Carlton 6, Level 2, The Ritz-Carlton Hotel, Kuala Lumpur, 168, Jalan Imbi, 55100 Kuala Lumpur on Thursday, 2 May 2019 at 2.30 p.m. The Notice of the AGM together with the Form of Proxy is sent to you together with this Circular.

If you are unable to attend and vote at the AGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions contained therein so as to arrive at the Company's registered office at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not later than forty-eight (48) hours before the time fixed for the AGM, or any adjournment thereof.

The lodging of the Form of Proxy will not preclude you from attending and voting in person at the AGM should you subsequently wish to do so.

13. FURTHER INFORMATION

Shareholders are requested to refer to the Appendix I for further information.

Yours faithfully,
for and on behalf of the Board of Directors of
MENTIGA CORPORATION BERHAD

YB. DATO' SRI DIRAJA HAJI ADNAN BIN HAJI YAAKOB
Non-Independent Non-Executive Chairman

1. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of MCB have seen and approved the contents of this Circular and they collectively and individually accept full responsibility for the accuracy of the information given herein and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, MCB Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, or any material claims against the Company or its subsidiary companies, or material arbitration proceedings, which have a material effect on the business or financial position of the Company or its subsidiary companies and the Board does not know of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially affect the business or financial position of the Company or its subsidiary companies.

3. MATERIAL CONTRACTS

As at the LPD, MCB Group has not entered into any material contracts (not being contracted entered into in the ordinary course of business) within the two (2) years preceding the date of this Circular.

4. MATERIAL COMMITMENT

As at the LPD, there is no material commitment incurred or known to be incurred by the Company and/or the Group, which upon being enforced, may materially affect the financial position of the Group.

5. CONTINGENT LIABILITIES

As at the LPD, there is no contingent liability incurred or known to be incurred by the Company and/or the Group, which upon becoming enforceable, may have a material impact on the financial position of the Group.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection by members of the Company at the registered office of the Company at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur during normal business hours from Mondays to Fridays (except Public Holidays) from the date of this Circular up to and including the date of the AGM:-

- (i) the Constitution of MCB;
- (ii) the audited consolidated financial statements of MCB for the past three (3) financial years ended 31 December 2016, 31 December 2017 and 31 December 2018.