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**4. RISK FACTORS**

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Notwithstanding the prospects of the Group as outlined in this Prospectus, applicants for the Public Issue Shares should carefully consider the following factors (which may not be exhaustive) that may have a significant impact on the future performance of the Group in addition to other information contained elsewhere herein, before applying for the Public Issue Shares: -

**4.1 NO PRIOR MARKET FOR KIB SHARES AND POSSIBLE VOLATILITY OF SHARE PRICES**

There has been no prior market for the Company's Shares. The Issue Price was determined and agreed upon by KIB and PMBB as Adviser and Underwriter, after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and condition, its prospects and the prospects for the industries in which the Group operates, the management of the Group, the market prices for shares of companies engaged in businesses similar to that of the Group and the prevailing market conditions. As such, the price at which KIB Shares will trade on the MESDAQ Market is dependent upon market forces which is beyond the control of the Company.

There can be no assurance that the Issue Price will correspond to the price at which the KIB Shares will be traded on the MESDAQ Market upon or subsequent to its listing or that an active market for KIB Shares will develop and continue upon or subsequent to its listing.

**4.2 CONTROL BY SUBSTANTIAL SHAREHOLDERS**

The largest shareholder in KIB is Dr. Chua Kee Lam who holds, directly and indirectly, 17.98% after the Public Issue and upon full exercise of the ESOS Options. Collectively the substantial shareholders of KIB, as stated in Section 9.2.1, will control approximately 62.79% of the Company's issued and paid-up share capital after the Public Issue and upon full exercise of the ESOS Options. As a result, it is likely that the said shareholders will be able to effectively control the outcome of certain matters requiring the vote of the Company's shareholders including the constitution of the Board of Directors and thus the direction and future operations of the Group, decisions regarding acquisitions and other business opportunities, declaration of dividends and the issuance of additional shares and other securities, unless they are required to abstain from voting by law and/or the relevant authorities.

**4.3 BUSINESS RISKS**

The Group's operations are subject to certain risks inherent in the industry which it operates. The risks include, inter-alia, general economic condition, constraints in labour supply, the possible increase in the operating and capital costs due to increase in labour supply, changes in economic and business conditions, foreign exchange rate fluctuations, increase in the prices of imported and local raw materials, unfavourable changes in Government and international policies, the introduction of new and more superior technology or products and services by competitors and changes in consumers' taste.

Although the Group seeks to limit these risks through, inter-alia, increasing the efficiency of operations, diversifying the pool of suppliers, expanding the business through increasing its range of customers, products and services for both local and export markets, and improving its technological competence in R&D and advanced technologies, no assurance can be given that any changes to these factors will not have a material adverse effect on the Group's business.

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

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**4.4 COMPETITION**

The KIB Group faces competition from various competitors in PVC compound, stabiliser and lubricant, and foam booster sectors, both local and abroad.

No assurance can be given that the Group will be able to maintain its market share upon completion of the Public Issue. Nevertheless, the Directors of the KIB Group believe that the Group is in a position to compete with its competitors based on its competitive edge in terms of its long standing relationship with its suppliers and customers, its continual commitment to technology and the high barriers to entry in polymer and oleochemical in respect of its technical expertise and the need for significant investment in technological equipment and R&D. The Company will also continue to take effective measures to ensure that its services/products conform to high quality standards, expansion of its production capacity, intensifying marketing activities, diversifying its product line, add-on products development, diversifying into new markets and implementation of cost efficiency programs to maintain the existing market position.

The Group's future success will depend significantly upon its ability to increase its share of its target markets, to maintain and increase its renewal revenues from existing customers and to sell additional products, product enhancements, maintenance and support services to existing customers and new markets.

**4.5 SYSTEM DISRUPTION**

The occurrence of disruption in power supply does not have much impact on the operations over the past years as such occurrence was infrequent and advance notice of any major interruption in power supply were duly notified by Tenaga Nasional Berhad. As such, the Group did not experience any system disruption from its plant, which has a significant effect on its operations for twelve (12) months prior to the date of this Prospectus. The Directors do not foresee a disruption of its operation in the future as the Company has a regular maintenance schedule for its machineries and equipment. Notwithstanding this, no assurance could be given that there will not be any system disruption in the future which may materially affect the Company's business.

**4.6 OPERATING RISKS**

Other risks, which are also inherent to KIB's business, includes amongst others, fire outbreaks, disruption of electric supply, disruption in its distribution channels, flood and theft which would affect the Group's business operations.

In order to minimise disruption to the operations of the Group, the Directors have in place certain risk-management plans and pre-emptive measures as follows: -

- A safety committee consisting of management and operational staff was formed to evaluate any existence of risk especially at the operation sites, to perform security checks and to ensure safety rules and regulations are strictly adhered to;
- Installation of twenty-four (24) hours surveillance cameras for monitoring and recording of any unusual happenings in the factories' premises;
- Adequate fire fighting system i.e. fire hydrants, hose reels and fire extinguishers have been installed in the factories in case of emergency;

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

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- The Group has taken up extensive insurance coverage on inter-alia, fire consequential loss, fire on factory building, plant and machinery, stocks and office equipment;
- The Group has engaged securities companies for guarding and patrolling the factory premises and surroundings. In addition, the factories are in operation twenty-four (24) hours and there are supervisors and shift leaders guarding the premises to prevent unauthorised entry;
- Engagement with electrical contractors that are on call twenty-four (24) hours in the event of any electrical disruption at the factory sites; and
- KIB has five (5) factories situated at different locations in Johor Bahru, Kuala Lumpur and Shah Alam that produce the Group's polymeric and oleochemical products. This will mitigate the risk of business disruptions should any one of its factories experience a breakdown.

With the abovementioned risk management practices/plans in place, the operational risks of the KIB Group are mitigated.

**4.7 SUPPLY OF RAW MATERIALS**

The Group sources its raw materials from a wide range of local and overseas suppliers. The prices of the raw materials used for the production of the Group are usually determined on a negotiated basis as and when the materials are needed. Based on the audited results for the financial year ended 31 March 2004, approximately 53% of the main raw materials used for the production of PVC compound such as PVC resins, DOP/DINP and calcium carbonate are sourced locally and 47% are sourced from Indonesia and Thailand. On the other hand, the main raw materials used for the production of stabilisers; PKDE and CDP, such as stearic acid and palm kernel oil are sourced locally. The Group does not foresee any difficulties in procuring the raw materials as they are readily available from several overseas and local suppliers and the Group is able to identify additional suppliers should the need arise. In addition, the Group has established a long-standing relationship with its suppliers.

Nevertheless, no assurance can be given that there will not be any difficulties in procuring the raw materials and in the event that the Group encounters any such difficulty, no assurance can be given that the Group's business will not be affected.

**4.8 DEPENDENCE ON KEY CUSTOMERS**

As the Group's current main products are intermediary products which form the necessary component for other manufacturing processes, the Group is dependent on its customers for continued orders as the Group is unable to market the products to end consumers. Although the Group does not have any formal agreements in place, the Group has, over the years, enjoyed a cordial relationship with its customers. Further, with its ability to cater to its customers' need and high product quality, the Group has obtained recurring orders. In addition, the Group is also expanding its product range as well as markets to reduce its dependency risk.

Nevertheless, there can be no assurance that the Group's business relationship with them will not be disrupted and the loss of any of its major customers will not have an adverse impact on the operations and financials of the Group.

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

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**4.9 FOREIGN EXCHANGE FLUCTUATIONS**

The main raw material used by the Group in the production of its PVC compound namely PVC resin is mainly sourced from Indonesia via a trading company, namely Mitsubishi Corporation (Singapore Branch). The purchase of this raw material is denominated in USD. The main raw material used for the production of PKDE and CDP is palm kernel, which is a commodity traded on the Bursa Malaysia Derivatives Berhad where the price fluctuations of the palm kernel are determined by the forces of supply and demand in the market. However the risk of foreign exchange fluctuations has been reduced since the imposition of a fixed exchange rate for the RM against the USD since 1 September 1998. Nevertheless, in the event that the fixed exchange rate is lifted or re-pegged to a new rate, the Group may have a greater exposure to foreign currency fluctuations. No assurance can be given that any future significant fluctuations in exchange rate or any financial crisis will not have any impact on the revenue and earnings of the Group.

**4.10 DEPENDENCE ON KEY PERSONNEL**

The Group believes that its continued success depends on the Group's ability to hire, train and retain qualified and competent personnel. The Group's success also depends on the continued employment of the Group's executive directors, senior management team and key technical personnel. Whilst the Group has made efforts to nurture and maintain a good relationship with its senior management team and key technical personnel, there can be no assurance that the loss of any of the key employees can be avoided.

In view of the above, the KIB Group has put in place the following management succession plan to ensure continuity of the KIB Group's businesses:

- The existing experienced personnel of the KIB Group will provide hands-on training to employees for continuous upgrading of skills and technical knowledge and management know-how of the employees;
- The continuity of expertise and professional will be further reinforced through the implementation of succession plan which will involve the identification, growing, training and empowerment of key personnel from existing middle management to assume the roles of senior management; and
- The KIB Group will continue to empower its staff, attract and recruit more skilled personnel by providing attractive remuneration packages and incentive schemes i.e. ESOS, annual increment, bonus, etc, to motivate and retain the employees to participate in the continued growth of the KIB Group.

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

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**4.11 POTENTIAL ACQUISITIONS AND JOINT VENTURES/INVESTMENT ACTIVITIES**

The Group may from time to time engage in acquisitions of companies with complementary products and services in related areas. If appropriate opportunities present themselves, the Group intends to acquire businesses, products or technologies that the Group believes will be in the interests of its shareholders, although the Group currently has no understanding, commitment or agreement with respect to any material acquisition. Currently, there is no material acquisition being pursued. However, any future acquisitions could expose the Group to new risks, including those associated with the assimilation of new operations and personnel, the diversion of financial and management resources from existing operations, and the inability of management to integrate successfully acquired businesses, personnel and technologies.

In addition, there can be no assurance that the Group will be able to successfully identify, negotiate or finance such acquisitions, or to integrate any such acquisitions with its current business. Furthermore, there can be no assurance that the Group will be able to generate sufficient revenues from any such acquisition to offset associated acquisition costs, or that the Group will be able to maintain uniform standard of quality and service, controls, procedures and policies, which may result in the impairment of relationships with customers, employees, and new management personnel. The Group may also evaluate, on a case-by-case basis, joint ventures relationships with certain complementary businesses.

KIB may undertake new investments or joint ventures which may be relatively new to the Malaysian market or have very long gestations periods, therefore resulting in the Group taking a longer time to recover its initial investments. In addition, any such joint venture investments would involve many of the same risks posed by acquisitions, particularly those risks associated with the diversion of resources, the inability to generate sufficient revenues, the management of relationships with third parties and potential additional expenses, any of which could have a material adverse effect on the Group's business, financial condition or operating results.

The acquisitions may also result in potential dilution via the issuance of equities, the incidence of debt and contingent liabilities and amortisation of expenses related to goodwill and other intangible assets.

**4.12 PRODUCT DEVELOPMENT AND PERFORMANCE**

Due to the complexity of developing the correct chemical formulation for its products to meet each customer's needs and requirements, the product development of the KIB Group is subject to certain inherent risks including non-acceptance by its customers and defective products due to human errors. To mitigate this risk, the KIB Group will continuously improve its R&D efforts by employing more skilled chemists and upgrading its R&D facilities.

However, there is no assurance that its products will be defect-free or will absolutely meet the specified customers' needs and requirements. In addition, any unanticipated technical or other problems could result in increased costs or material delays in the development thereof.

There can also be no assurance that, despite rigorous testing by the Group and its current and potential customers, defects will not be found in the KIB Group's products after its delivery.

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

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**4.13 ENVIRONMENTAL ISSUES**

There is a growing concern on the environmental issues on plastic materials used by the industries as most plastic materials are not biodegradable. PVC producers are affected by the global trend of changing product preferences towards more environmental friendly and safer features as the stabilisers used in PVC processing normally contain heavy metals such as lead and cadmium which are considered to be hazardous to human health.

However, the improvement in PVC formulations, "Green PVC", containing lead and cadmium free stabilisers and more environmental friendly flame-retardants and plasticisers are now more environmentally acceptable and safer for industrial applications.

Recognising this new public awareness, the Group has taken steps in developing more environmentally friendly products. The Group has recently developed low smoke flame retardant and lead-free PVC compound and is currently doing research on the development of lead-free chemical stabilisers, which can also be used in its production of PVC compound. The Group ensures that the general environmental surroundings of its manufacturing site are not damaged. Various forms of environmental friendly approaches have been taken into consideration during the production stage and minimal wastage throughout its manufacturing process.

Although the Directors of KIB are reasonably confident, based on the aforementioned mitigating factors, that such environmental concerns on PVC will not materially affect the business and financial performance of the Group, no assurance can be given that other alternatives to PVC such as metal, wood and steel will not jeopardise the business of the Group in the future.

**4.14 POLITICAL, ECONOMIC AND REGULATORY CONSIDERATIONS**

Like all other business entities, adverse developments in political, economic and regulatory conditions in Malaysia and South East Asian region could unfavourably affect the financial position and business prospects of the Group. Other political uncertainties that could unfavourably affect the Group include changes in political leadership, expropriation, nationalisation, re-negotiation or nullification of existing sales orders and contracts, changes in interest rates and methods of taxation and currency exchange rules and contracts.

Whilst the Group strives to continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that adverse political, economic and regulatory factors will not materially affect the Group.

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

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**4.15 FORWARD LOOKING STATEMENTS**

Certain statements in this Prospectus are based on historical data, which may not be reflective of future results, and others are forward-looking in nature which are subject to uncertainties and contingencies. All forward-looking statements are based on estimates and assumptions made by the Board of Directors of the Company, and although believed to be reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements.

Such factors include, inter-alia, general economic and business conditions, competition, impact of new laws and regulations affecting the Group and the industry, changes in interest rates and changes in foreign exchange rates. In the light of these uncertainties, the inclusion of forward-looking statements in this Prospectus should not be regarded as a representation or warranty by the Company or its advisers that the plans and objectives of the Group will be achieved.

**4.16 FUTURE GROWTH**

Although the Group strives to achieve the Group's growth targets as set out in its Five-year Business Plan, the Group's future growth will be much dependent upon, among other things, the Group's ability to enter into strategic marketing or other arrangements on a timely basis and on favourable terms, hire and retain skilled management, financial, technical and marketing personnel, successfully manage growth including monitoring operations and controlling costs, and obtain adequate financing when needed. The Directors believe that the Group's successful listing on the MESDAQ Market will serve to provide the Group with the financial capabilities to increase its growth in sales and business development and to further expand its business in the polymer and oleochemical industry.

There can be no assurance that the Group will be able to successfully implement its business plan or that unanticipated change in market forces, financial constraints or technical difficulties will not occur which would result in material delays in its implementation or even deviation from its original plans.

**4.17 INSURANCE RISKS**

At present, the Directors believe that the Group is adequately insured against unforeseen events such as fire and lighting, machines damages, theft and burglary. Although the Group has taken the necessary measures to ensure that its assets are adequately covered by insurance, there can be no assurance that the insurance would be adequate for replacement cost of all assets of the KIB Group.

**4.18 LITIGATION RISKS**

To date, there have not been any litigation claims that have been presented against the KIB Group by its customers, suppliers, employees or any other party. Nevertheless, there is no assurance that any future litigation matters brought against KIB may not affect the KIB's future performance and operations.

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## 5. INFORMATION ON THE KIB GROUP

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### 5.1 HISTORY AND BACKGROUND

KIB was incorporated in Malaysia under the Act on 21 April 2003 as a private limited company under the name of Karyon Industries Sdn Bhd. It was subsequently converted to a public limited company on 24 July 2003 and assumed its present name.

The Group, founded by Dr. Chua Kee Lam and three (3) other partners namely Ang Ah Kow @ Ang Cheok Sai, Teoh Liang Huat @ Teoh Lean Huat and Pueng Chin Thong @ Fang Chin Tong started in 1990 when they decided to venture into trading of PVC compound, under Hsing Lung Trading Sdn Bhd. The company started to manufacture its own PVC compound when it changed its name to HLSB on 5 July 1990. In 1997, the Group began to explore the market for new opportunities and ventured into oleochemical products through KMSB. One of its first products developed was foam booster or commonly known as PKDE and then later expanded the production to include CDP, a non-toxic semi-finished raw material which can be used to produce cleaning liquids. From the manufacturing of PVC compound and foam booster, the Group then established AISB to manufacture lubricant mainly used for PVC compound in 2002. Today, the Group consists of three (3) wholly-owned subsidiary companies namely HLSB, AISB and KMSB.

The Group primarily focuses on the manufacturing of polymeric products and oleochemical products. The Group's products consist of various types of PVC compound, chemical stearates, one pack lead systems, PKDE, CDP, and detergent and shampoos which can be applied to various industry sectors, such as in the consumer industry, cable industry, plastic industry, construction sector and telecommunication sector.

The prospects of the Group have grown tremendously since inception. Based on the total industry sales quantity of PVC compound in 2003, it was estimated that the KIB Group's market share in PVC compound segment stood at 19.8% (*Source: Industry Report on Polymer and Surfactant Industries in Malaysia – RAMCS*). The Group has managed to establish its market in PVC compound by supplying to local corporations and MNCs principally involved in the plastic and polymer industry in the free trade zone in Peninsular Malaysia, such as Texchem Engineering Plastics Sdn Bhd, Sindutch Cable Manufacturer Sdn Bhd and Hitachi Cable (Johor) Sdn Bhd, as well as private and local listed companies, namely Universal Cable (M) Berhad,, Amtek Shoes Sdn Bhd, a subsidiary company of Amtek Holdings Berhad, Khind Components Sdn Bhd, a subsidiary company of Khind Holdings Berhad, Steel Recon Industries Marketing Sdn Bhd, a subsidiary company of SRII Bhd, MITTI Cables Manufacturing Sdn Bhd, United MS Cable Manufacturing (M) Sdn Bhd and SASA Cables Sdn Bhd.

As for the Group's oleochemical products, it is estimated that the Group has a market share of 4.6% in the surfactant industry, based on KMSB's sales of RM4.3 million in 2003 (*Source: Industry Report on Polymer and Surfactant Industries in Malaysia – RAMCS*). The Group is a contract manufacturer for Malaysian producers of water treatment chemicals and detergents such as shampoo, dishwashing liquid, floor cleaner, namely Yee Lee Trading Berhad Group and Behn-Meyer Techno-Chemicals Sdn Bhd. In addition, approximately 89% of PKDE is sold locally whilst the remaining 11% is exported overseas mainly to Middle East, Thailand, Vietnam and Singapore.

The Group's vision is to become one of the leading compound producers in the region, that is able to provide a comprehensive and innovative range of polymeric and oleochemical products to its customers.



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**6. BUSINESS OVERVIEW**


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**5.2 FLOTATION SCHEME**

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of KIB on the MESDAQ Market, the Company undertook the following restructuring exercise which was approved by Bursa Securities and the SC on 30 March 2004 and 23 March 2004 respectively:-

**5.2.1 The Acquisitions**

KIB had on 18 August 2003 entered into several share sale agreements with the vendors of the Acquiree Companies to acquire the entire equity interests of the Acquiree Companies for a total purchase consideration of RM7,254,330, which was satisfied by the issuance of 7,254,330 new ordinary shares of RM1.00 each in KIB at par, the details of which are summarised below: -

**HLSB Acquisition**

HLSB Acquisition involves the acquisition by KIB of the entire issued and paid-up share capital of HLSB comprising 4,733,750 ordinary shares of RM1.00 each for a total consideration of RM5,207,125 satisfied by the issuance of 5,207,125 new ordinary shares of RM1.00 each in KIB at par.

The purchase consideration of RM5,207,125 for the HLSB Acquisition was arrived at on a “willing-buyer willing-seller” basis and after taking into consideration the adjusted audited NTA of HLSB as at 31 March 2003 of RM5,506,939.

Further details on the HLSB Vendors and their respective shareholdings pursuant to the HLSB Acquisition are as follows:-

<b>HLSB Vendors</b>	<b>No. Of HLSB Shares Acquired By KIB</b>	<b>%</b>	<b>Purchase Consideration RM</b>	<b>No. Of Consideration Shares Issued</b>
Dr. Chua Kee Lam	530,000	11.20	583,000	583,000
Koay Choo Cheng	143,750	3.04	158,125	158,125
Tan Yeow Pong	62,500	1.32	68,750	68,750
Poon Sau Mui	643,750	13.60	708,125	708,125
Ang Ah Kow @ Ang Chcek Sai	731,250	15.45	804,375	804,375
Teoh Kooi Kim	100,000	2.11	110,000	110,000
Teoh Lean Hoe	78,126	1.65	85,939	85,939

**6. BUSINESS OVERVIEW**

HLSB Vendors	No. Of HLSB Shares Acquired By KIB	%	Purchase Consideration RM	No. Of Consideration Shares Issued
Teoh Liang Huat @ Teoh Lean Huat	438,124	9.26	481,936	481,936
Chang Saw Boey	75,000	1.58	82,500	82,500
Woo Min Fong	1,000,000	21.13	1,100,000	1,100,000
Chua Bee Yock	205,000	4.33	225,500	225,500
Yeo Sick Tuaw	150,000	3.17	165,000	165,000
Central Equity Sdn Bhd	100,000	2.11	110,000	110,000
Tsen Keng Yam	200,000	4.22	220,000	220,000
Tan Poh Choo	50,000	1.06	55,000	55,000
Chua Tiang Chu @ Chua Tiong Choo	35,000	0.74	38,500	38,500
Teo Meng Keong	30,000	0.63	33,000	33,000
Yap See Chuan @ Yap Huan Choon	20,000	0.42	22,000	22,000
Lou Kow Chay	10,000	0.21	11,000	11,000
Wong Choy Yin	10,000	0.21	11,000	11,000
Woo Shin Khiat	5,000	0.11	5,500	5,500
Tan Siew Hua	5,000	0.11	5,500	5,500
Chua Hak Lien	30,000	0.63	33,000	33,000
Chua Ling Hong	53,124	1.12	58,436	58,436
Chua Ling Lee	28,126	0.59	30,939	30,939
<b>Total</b>	<b>4,733,750</b>	<b>100.00</b>	<b>5,207,125</b>	<b>5,207,125</b>

**KMSB Acquisition**

KMSB Acquisition involves the acquisition by KIB of the entire issued and paid-up share capital of KMSB comprising 1,031,470 ordinary shares of RM1.00 each for a total consideration of RM1,547,205 satisfied by the issuance of 1,547,205 new ordinary shares of RM1.00 each in KIB at par.

The purchase consideration of RM1,547,205 for the KMSB Acquisition was arrived at on a "willing-buyer willing-seller" basis and after taking into consideration the adjusted audited NTA of KMSB as at 31 March 2003 of RM1,505,924.

**6. BUSINESS OVERVIEW**

Further details on the KMSB Vendors and their respective shareholdings pursuant to the KMSB Acquisition are as follows: -

KMSB Vendors	No. Of KMSB Shares Acquired By KIB			Purchase Consideration RM	No. Of Consideration Shares Issued
			%		
Dr. Chua Kee Lam	186,315	18.06		279,472	279,472
Koay Choo Cheng	169,378	16.42		254,067	254,067
Tan Ycow Pong	203,956	19.77		305,934	305,934
Chua Ling Hong	59,124	5.73		88,686	88,686
Chua Ling Lee	35,000	3.39		52,500	52,500
Wo Ka Seng	186,315	18.07		279,473	279,473
Koay Kee Sheng	85,568	8.30		128,352	128,352
Wo Chin Yong	59,124	5.73		88,686	88,686
Wo Shee Ling	35,000	3.39		52,500	52,500
Chan Quee Yean	6,876	0.67		10,314	10,314
Lim Sock Peng	4,814	0.47		7,221	7,221
<b>Total</b>	<b>1,031,470</b>	<b>100.00</b>		<b>1,547,205</b>	<b>1,547,205</b>

**AISB Acquisition**

AISB Acquisition involves the acquisition by KIB of the entire issued and paid-up share capital of AISB comprising 500,000 ordinary shares of RM1.00 each for a total consideration of RM500,000 to be satisfied by the issuance of 500,000 new ordinary shares of RM1.00 each in KIB at par.

The purchase consideration of RM500,000 for the AISB Acquisition was arrived at on a willing-buyer willing-seller basis and after taking into consideration the cost of investment in AISB of RM500,000 as at 31 March 2003.

Further details on the AISB Vendors and their respective shareholdings pursuant to the AISB Acquisition are as follows: -

AISB Vendors	No. Of AISB Shares Acquired By KIB			Purchase Consideration RM	No. Of Consideration Shares Issued
			%		
Dr. Chua Kee Lam	16,000	3.20		16,000	16,000
Koay Choo Cheng	25,000	5.00		25,000	25,000
Teoh Kooi Kim	24,000	4.80		24,000	24,000
Teoh Liang Huat @ Teoh Lean Huat	32,000	6.40		32,000	32,000
Central Equity Sdn Bhd	200,000	40.00		200,000	200,000
Yap See Chuan @ Yap Huan Choon	16,000	3.20		16,000	16,000

## 6. BUSINESS OVERVIEW

AISB Vendors	No. Of AISB Shares Acquired By KIB		Purchase Consideration RM	No. Of Consideration Shares Issued
		%		
Chua Ling Lee	24,000	4.80	24,000	24,000
Wo Ka Seng	39,000	7.80	39,000	39,000
Dr. Tan Seng Leong	100,000	20.00	100,000	100,000
Ng Lai Kee	8,000	1.60	8,000	8,000
Teoh Tang Kim @ Tcoi Tung Kim	16,000	3.20	16,000	16,000
<b>Total</b>	<b>500,000</b>	<b>100.00</b>	<b>500,000</b>	<b>500,000</b>

The 7,254,330 Consideration Shares issued pursuant to the Acquisitions rank pari passu in all respects with then existing KIB Shares of the Company.

The issued and paid-up share capital of each of the Acquiree Companies were acquired free from all charges, liens, pledges, trust and other encumbrances and with all rights, benefits and entitlements now and thereafter attaching thereto. The Acquisitions were completed on 1 June 2004.

Upon completion of the Acquisitions, the issued and fully paid-up share capital of KIB increased from RM2.00 comprising two (2) ordinary shares of RM1.00 each in KIB to RM7,254,332 comprising 7,254,332 ordinary shares of RM1.00 each in KIB.

### 5.2.2 Share Split

KIB implemented a Share Split whereby every existing one (1) ordinary share of RM1.00 par value each held was sub-dividend into ten (10) new ordinary shares of RM0.10 par value each.

The Share Split was effected on 1 June 2004. Following the completion of the Share Split, the issued and paid-up share capital of KIB is RM7,254,332 comprising 72,543,320 KIB Shares.

### 5.2.3 Rights Issue

KIB undertook a Rights Issue of 17,456,680 new KIB Shares at par on the basis of one (1) new KIB Share for approximately every 4.16 KIB Shares held after the completion of the Acquisitions and the Share Split. Following the completion of the Rights Issue, the issued and paid-up share capital of KIB was increased from RM7,254,332 comprising 72,543,320 KIB Shares to RM9,000,000 comprising of 90,000,000 KIB Shares.

The Rights Issue was completed on 3 June 2004 and all KIB Shares issued pursuant to the Rights Issue rank pari-passu in all respects with the then existing KIB Shares of the Company.

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**6. BUSINESS OVERVIEW**

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**5.2.4 Public Issue**

Following the completion of the Acquisitions, the Share Split, the Rights Issue and in conjunction with the flotation of KIB on the MESDAQ Market, the Company will undertake the Public Issue of 30,000,000 new KIB Shares (representing approximately 25% of the enlarged issued and paid-up share capital of 120,000,000 KIB Shares) at an issue price of RM0.18 per new KIB share by way of private placement and public issue thereby increasing the Company's issued and paid-up share capital to RM12,000,000 comprising 120,000,000 new KIB Shares.

The Public Issue Shares will be allocated to prospective investors in the following manner: -

**(i) Private Placement**

20,000,000 KIB Shares representing 16.67% of the enlarged share capital of 120,000,000 KIB Shares are available for application under private placement to identified investors;

**(ii) Malaysian Public**

5,000,000 KIB Shares representing 4.17% of the enlarged share capital of 120,000,000 KIB Shares are available for application by the Malaysian public; and

**(iii) Eligible Directors, Employees, Suppliers, Customers and Business Associates of the KIB Group**

5,000,000 KIB Shares representing 4.17% of the enlarged share capital of 120,000,000 KIB Shares have been reserved for eligible Directors and employees, suppliers, customers and business associates of the KIB Group.

The 30,000,000 new KIB Shares arising from the Public Issue will rank pari passu in all respects with the existing issued and paid-up share capital of the Company.

**5.2.5 ESOS**

In conjunction with the Flotation Scheme, KIB has established an ESOS to grant up to 10% of the issued and paid-up share capital of KIB, comprising 12,000,000 Shares to the eligible employees and Directors of the KIB Group. The exercise price of ESOS Options will be fixed at RM0.18, being the Issue Price of the Public Issue Shares.

The ESOS shall be in force for a duration of five (5) years. However, the duration of the ESOS may be extended for up to a maximum of ten (10) years at the discretion of the Board upon the recommendation of the ESOS Committee. The new Shares to be issued upon the exercise of the ESOS Options will, upon issuance and allotment, rank pari-passu in all respects with the existing issued and paid-up share capital of KIB after the Acquisitions, the Share Split, the Rights Issue and the Public Issue.

Upon full exercise of all ESOS Options granted, the issued and paid-up share capital of KIB will increase to RM13,200,000, comprising 132,000,000 KIB Shares.

## 6. BUSINESS OVERVIEW

### 5.2.6 Proposed Listing

Upon completion of the abovementioned exercises, KIB will seek the listing of and quotation for its enlarged share capital of RM13,200,000 comprising 132,000,000 KIB Shares on the MESDAQ Market, inclusive of 12,000,000 new KIB Shares to be issued pursuant to the exercise of the ESOS Options.

## 5.3 INFORMATION ON KIB

### (i) Incorporation

KIB was incorporated in Malaysia under the Act on 21 April 2003 as a private limited company under the name of Karyon Industries Sdn Bhd. The Company was converted into a public limited company on 24 July 2003 and assumed its present name. KIB was incorporated to facilitate the flotation exercise of KIB Group on the MESDAQ Market.

KIB's principal activity is that of investment holding, whilst its subsidiaries are mainly involved in the manufacturing of PVC compound, stabiliser and lubricant for PVC compound and other plastic industry as well as the manufacturing of PKDE, CDP, toiletry, household and industrial cleaning products.

### (ii) Share capital

The present authorised and issued paid-up share capital of KIB as at the date hereof are as follows: -

Type	No. of ordinary shares	Par value (RM)	(RM)
Authorised	250,000,000	0.10	25,000,000
Issued and paid-up	90,000,000	0.10	9,000,000

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

Date of allotment	No of shares allotted	Par value (RM)	Type of issue	Cumulative issued share capital (RM)
21.04.2003	2	1.00	Subscriber's shares	2
01.06.2004	7,254,330	1.00	Issued pursuant to the Acquisitions	7,254,332
01.06.2004	72,543,320	0.10	Subdivision of shares of RM1.00 each into ordinary shares of RM0.10 each	7,254,332

**6. BUSINESS OVERVIEW**

<b>Date of allotment</b>	<b>No of shares allotted</b>	<b>Par value (RM)</b>	<b>Type of issue</b>	<b>Cumulative issued share capital (RM)</b>
03.06.2004	17,456,680	0.10	Issued pursuant to the Rights Issue	9,000,000

**(iii) Subsidiary companies**

KIB has three (3) wholly-owned subsidiary companies namely HLSB, AISB and KMSB. The Company does not have any associated companies.

**(iv) Employees**

As at 15 August 2004, KIB Group has a total workforce of fifty-two (52) employees.

**5.4 SUBSIDIARY AND ASSOCIATED COMPANIES****5.4.1 HLSB****(i) Incorporation**

HLSB was incorporated in Malaysia as a private limited company under the Act on 11 November 1986 under the name of Hsing Lung Trading Sdn Bhd and subsequently it changed to its current name on 5 July 1990. HLSB commenced its business operations in 1990. HLSB is principally involved in the manufacturing and trading of various types of PVC compound such as plasticised PVC compound and PVC colour masterbatch.

**(ii) Share capital**

The present authorised, issued and paid-up share capital of HLSB as at the date hereof are as follows: -

<b>Type</b>	<b>No. of ordinary shares</b>	<b>Par value (RM)</b>	<b>(RM)</b>
Authorised	10,000,000	1.00	10,000,000
Issued and paid-up	4,733,750	1.00	4,733,750

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**6. BUSINESS OVERVIEW**

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

<b>Date of allotment</b>	<b>No of shares allotted</b>	<b>Par value (RM)</b>	<b>Type of issue</b>	<b>Cumulative issued share capital (RM)</b>
11.11.1986	3	1.00	Cash	3
07.06.1990	179,997	1.00	Cash	180,000
09.07.1990	70,000	1.00	Cash	250,000
12.02.1991	150,000	1.00	Cash	400,000
30.03.1991	93,000	1.00	Cash	493,000
13.08.1991	47,600	1.00	Cash	540,600
08.01.1992	80,000	1.00	Cash	620,600
01.08.1992	389,400	1.00	Cash	1,010,000
01.11.1992	110,000	1.00	Cash	1,120,000
29.07.1993	124,000	1.00	Cash	1,244,000
11.04.1994	204,500	1.00	Cash	1,448,500
18.01.1995	355,500	1.00	Cash	1,804,000
31.03.1995	225,000	1.00	Cash	2,029,000
16.08.1995	118,000	1.00	Cash	2,147,000
03.08.1996	40,000	1.00	Cash	2,187,000
21.03.2003	273,375	1.00	Bonus Issue (1:8)	2,460,375
27.03.2003	273,375	1.00	Cash	2,733,750
28.03.2003	1,700,000	1.00	Cash	4,433,750
19.05.2003	300,000	1.00	Cash	4,733,750

**(iii) Subsidiary and associated company**

As at the date hereof, HLSB does not have any subsidiary or associated company.

**(iv) Substantial shareholders**

KIB holds 100% equity interest in HLSB.

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## 6. BUSINESS OVERVIEW

### 5.4.2 AISB

#### (i) Incorporation

AISB was incorporated in Malaysia as a private limited company under the Act on 6 February 1998 under the name of Allbright Enterprise Sdn Bhd and subsequently changed to its current name on 6 November 2000. AISB commenced its business operations in 2001. AISB is principally involved in the manufacturing of stabilisers and lubricant and trading of plastic additives.

#### (ii) Share capital

The present authorised, issued and paid-up share capital of AISB as at the date hereof are as follows: -

Type	No. of ordinary shares	Par value	
		RM	RM
Authorised	500,000	1.00	500,000
Issued and paid-up	500,000	1.00	500,000

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

Date of allotment	No of shares allotted	Par value (RM)	Type of issue	Cumulative issued share capital (RM)
06.02.1998	2	1.00	Cash	2
01.03.2001	99,998	1.00	Cash	100,000
08.11.2002	76,000	1.00	Cash	176,000
24.03.2003	324,000	1.00	Cash	500,000

#### (iii) Subsidiary and associated company

As at the date hereof, AISB does not have any subsidiary or associated company.

#### (iv) Substantial shareholders

KIB holds 100% equity interest in AISB.

## 6. BUSINESS OVERVIEW

### 5.4.3 KMSB

#### (i) Incorporation

KMSB was incorporated in Malaysia as a private limited company under the Act on 10 January 1994. KMSB commenced its business operation in 1997. KMSB is principally involved in the manufacturing of CDP and PKDE for washing detergent, cleaning liquids and toiletry products, as well as producing toiletry, household and industrial cleaning products.

#### (ii) Share capital

The present authorised, and issued and paid-up share capital of KMSB as at the date hereof are as follows: -

Type	No. of ordinary shares	Par value (RM)	(RM)
Authorised	5,000,000	1.00	5,000,000
Issued and paid-up	1,031,470	1.00	1,031,470

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

Date of allotment	No of shares allotted	Par value (RM)	Type of issue	Cumulative issued share capital (RM)
10.01.1994	2	1.00	Cash	2
17.03.1997	99,998	1.00	Cash	100,000
26.06.2000	150,000	1.00	Cash	250,000
10.05.2001	150,000	1.00	Cash	400,000
22.03.2002	100,000	1.00	Cash	500,000
09.12.2002	172,200	1.00	Cash	672,200
07.04.2003	359,270	1.00	Cash	1,031,470

#### (iii) Subsidiary and associated company

As at the date hereof, KMSB does not have any subsidiary or associated company.

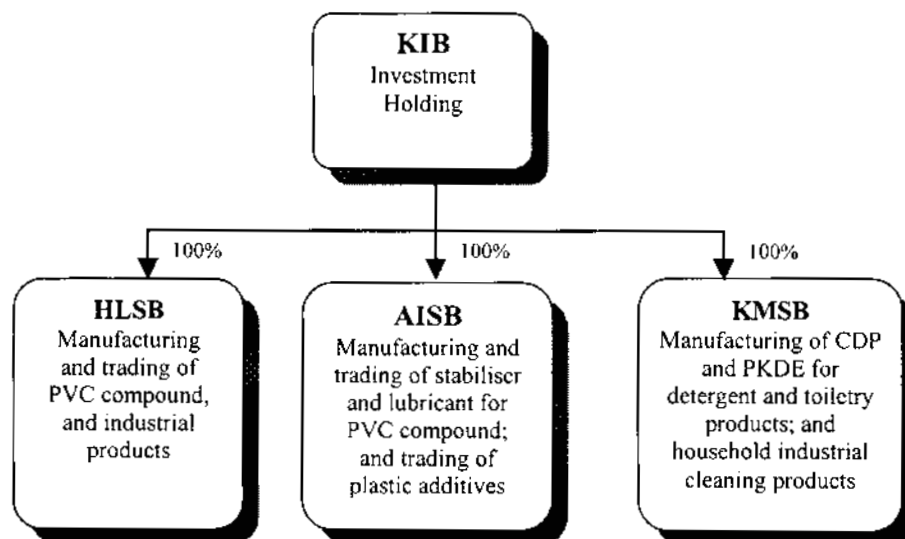
#### (iv) Substantial Shareholders

KIB holds 100% equity interest in KMSB.

## 6. BUSINESS OVERVIEW

### 6.1 BUSINESS OVERVIEW

KIB is principally an investment holding company while the principal activities of its subsidiary companies, are summarised below: -



The KIB Group's products can be generally classified under two (2) industries namely polymeric and oleochemical. The polymeric division is undertaken by HLSB and AISB which manufacture various types of PVC compound, stabilisers and lubricant while the oleochemical division is undertaken by KMSB which manufacture CDP and PKDE used in the manufacturing of washing detergent, cleaning liquid and toiletry products. In addition, KMSB also produces toiletry, household and industrial cleaning products.

### 6.2 MANUFACTURING OF POLYMERIC PRODUCTS

#### 6.2.1 PVC Compound

##### (a) Principal Products

PVC products constitute part of the polymer industry and play a complementary role in arriving at polymer based products. The Group compounds polymer raw materials for manufacturers operating in this industry. Generally, compounding enables thermoplastic resins to effectively meet the heat strength and other requirements for polymer or plastic products. The raw materials used for the production of compounds are derivatives of crude oil and natural gas. These building blocks of plastics are short-chain molecules called monomers. Monomers that are combined to create longer, more complex chains are known as polymers.

HLSB's focus is on producing various types of PVC compound and PVC colour masterbatch. In addition, the Group through AISB also produces stearates and one pack lead system. Stearates and one pack lead systems are also used in the manufacturing of PVC, and other polymeric products. Apart from manufacturing for its internal use, AISB also sells to external parties.

**6. BUSINESS OVERVIEW (Cont'd)**

The major products manufactured by HLSB and its end applications are as follows: -

<b>Product range</b>	<b>Type of compound</b>	<b>End applications</b>
Plasticised PVC compound	PVC compound	- Wire and cable insulation
	PVC compound	- Footwear including normal, oil abrasion and slip resistant
	PVC compound	- Hoses – normal water hoses to chemical and oil resistant hoses. Lining/gasket for automotive
	Non-toxic PVC grades	- Toys and food contact applications
	Transparent soft PVC	- Packaging purpose
	Low smoke flame retardant compound	- Cable
PVC colour masterbatch	PVC compound	- PVC products

**(b) Location of operations**

HLSB currently operates from three (3) factories located in Johor Bahru. The factories and their present operations are as follows: -

<b>Location</b>	<b>Status</b>	<b>Land area (Square metres)</b>	<b>Annual maximum production capacity (MT)</b>	<b>Activity</b>
No. 103 Jalan Seroja 39 Taman Johor Jaya 81100 Johor Bahru Johor Darul Takzim	Owned	1,015	3,600	PVC compounding
No. 29 Jalan Seroja 39 Taman Johor Jaya 81100 Johor Bahru Johor Darul Takzim	Owned	656	3,500	PVC compounding

## 6. BUSINESS OVERVIEW (Cont'd)

Location	Status	Land area (Square metres)	Annual maximum production capacity (MT)	Activity
No. 1 Jalan Sri Plentong 6 Taman Perindustrian Sri Plentong 81750 Masai Johor Bahru	Owned	3,927	3,000	PVC compounding

## (c) Technology/software/system used by HLSB

The technology used by HLSB in the production of PVC compound is developed in-house by Dr. Chua who is an experienced chemist and has a vast experience in PVC compounding. Details of the technology/systems used by HLSB are set out below: -

	Description
1. Weighing and Feeder System	: An electronic metering device and load cells used for automatic weighing for the major ingredients in PVC compound.  Other additives or pigments of smaller amounts are manually weighed using analytical weighing balances scaled to two decimal points.
2. Mitsubishi process loop control "PLC" - Temperature controlling unit with software	: A sensitive temperature sensor, which is inserted into the body of the high-speed mixer to detect the temperature of the mixture. A PLC is programmed to stop the mixing process once the mixture reaches the desired temperature.
3. Twin and Single Screw Extruder with temperature sensor	: Screw extruders are the process tools used in compounding, injection moulding, injection blow moulding, extrusion and extrusion blow moulding. The extruder is divided into different heat zones controlled by individual temperature sensor and thermocouples.

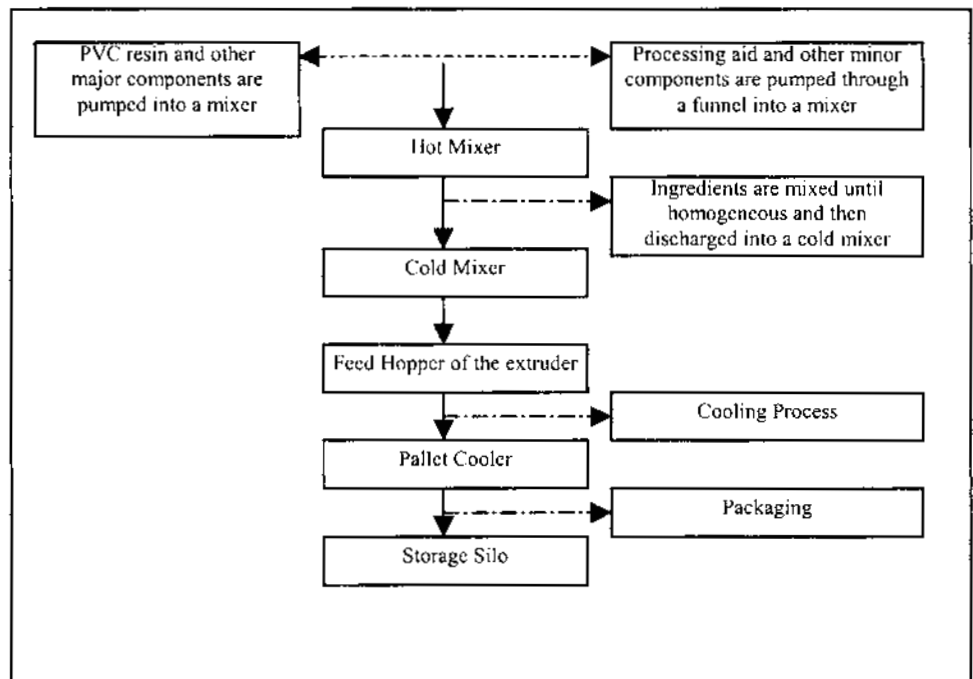
6. BUSINESS OVERVIEW (Cont'd)

	Description
4. Granulating System	: The granulating unit has a 3-Horse Power motor connected to a rotating multi-knife holder used to cut the material into a granular or pallet form. An electrical inverter is used to monitor and control the speed of the motor for cutting the material into the required pallet size.
5. Granulate Cooling and Silo System	: A piping system that has strong air blowers to deliver the pallets through the piping system into the primary silo and at the same time to cool down the surface of the pallets to prevent them from sticking together.

(d) Production and process

The two major methods for the preparation of plasticised PVC are “dry blending” and “hot compounding”. HLSB practices the hot compounding method in its production. Hot compounding is frequently used when larger amounts of plasticisers are to be added to the polymer.

The process for manufacturing PVC compound consists of several major steps: -



HLSB currently owns a total of five (5) units of machines, which have a maximum production capacity of 10,100 MT per year. The existing production is running on two twelve (12) hour shifts daily, seven (7) days a week except for maintenance, which is carried out once every two weeks.

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**6. BUSINESS OVERVIEW (Cont'd)**

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**(e) Market position/market share**

Presently, there are seven (7) major players in the PVC compound industry in Malaysia namely Syarikat Nam Ah Sdn Bhd, Malayan Industrial Plastics Sdn Bhd, Industrial Resin (M) Berhad, Malayan Electro Chemical Industry Co Sdn Bhd, Perceptive Profile Sdn Bhd, Sin Yong Guan Industries Sdn Bhd, and HLSB.

The market share analysis indicated that HLSB garnered 19.8% of the PVC compound industry in 2003 as opposed to 17.9% on 2002. The gain of 1.9% in 2003 reflect the increasing penetration of new markets by the KIB Group. (Source: *Industry Report on Polymer and Surfactant Industries in Malaysia – RAMCS*).

The Group has managed to establish its market in PVC compound by supplying to large corporations and MNCs principally involved in the plastic and polymer industry in the Free Trade Zone in Peninsular Malaysia, such as Texchem Engineering Plastics Sdn Bhd, Sindutch Cable Manufacturer Sdn Bhd and Hitachi Cable (Johor) Sdn Bhd, as well as local private and listed companies namely Amtek Shoes Sdn Bhd, a subsidiary company of Amtek Holdings, Khind Components Sdn Bhd, a subsidiary company of Khind Holdings Berhad, Steel Recon Industries Marketing Sdn Bhd, a subsidiary of SRII Bhd, MITTI Cables Manufacturing Sdn Bhd, United MS Cable MFg (M) Sdn Bhd, SASA Cables Sdn Bhd, Universal Cable (M) Berhad and Wonderful Wire & Cable Berhad.

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## 6. BUSINESS OVERVIEW (Cont'd)

## (f) Significant new or proposed new products

The products that HLSB plans to develop over the next three (3) years are as follows: -

New products to be launched	Applications	Estimated year of launching
<b>Polymeric products</b>		
PVC rigid compound	<ul style="list-style-type: none"> <li>• Transparent PVC bottle compounds</li> <li>• Transparent PVC compound for I.C tube for electronics industry</li> <li>• Transparent PVC compound for rigid films for packaging purposes</li> <li>• Rigid PVC compound for pipe fittings, PVC doors and profiles</li> </ul>	September 2004
Low smoke and flame retardant	Low smoke flame retardant PVC compound for cable industry	December 2004
<b>Polyolefin base compounds</b>		
PE colour masterbatch	PE colour masterbatch is widely used for extrusion and injection processors	2005
XLPE	For better heat and electrical insulation properties, suitable for hot water piping system, wire and cable applications	2006
TPO/TPE modified compound	Compounds used in manufacturing of automotive body-parts in automotive industry, shoe sole, toys, eraser and other plastic modification application	2007



**6. BUSINESS OVERVIEW (Cont'd)****(g) Major customers**

HLSB's customers range from large corporations to SMEs and individuals. The major customers of HLSB based on the audited results of the financial year ended 31 March 2004 are as follows: -

<b>Name of customer</b>	<b>Length of relationship (Years)</b>	<b>% of total sales</b>
MITTI Cables Manufacturing Sdn Bhd	>5	9.51
Steel Recon Industries Marketing Sdn Bhd	1	9.46
Nikko Electronics Bhd	>5	4.98
SASA Cables Sdn Bhd	>5	4.38
Mega Kable Sdn Bhd	>5	4.29
Tenaga Cable Industries Sdn Bhd	4	4.05
M-Pacific Cables Sdn Bhd	>6	3.90
Digico Cable Sdn Bhd	2	3.58
MITTI Power Cables Sdn Bhd	4	3.50
Sindutch Cable Manufacturer Sdn Bhd	2	3.25
<b>Total</b>		<b>50.90</b>

HLSB has a wide customers based and is not dependent on any one or a small group of customers. The above major customers of HLSB accounted for approximately 50.90% of its total revenue for the financial year ended 31 March 2004 and none of them contribute more than 10% of the revenue of HLSB.

Notwithstanding to the above, HLSB has taken the following steps to ensure continued business with the abovementioned customers:

- Proven track record in terms of satisfying customers' requirement in product quality, pricing and delivery; and
- Close business relationship with its major customers.

**6. BUSINESS OVERVIEW (Cont'd)****(h) Availability of raw materials**

The main raw materials used by HLSB for the production of PVC compound are PVC resin, plasticisers DOP/DINP and calcium carbonate. These three items constitute approximately 85% of the total raw material cost. HLSB sources its raw materials from a wide range of local and overseas suppliers. Based on the audited results for the financial year ended 31 March 2004, approximately 58% of the main raw materials are sourced locally and 42% are sourced from Indonesia and Thailand.

**(i) Major suppliers**

The details of HLSB's major suppliers based on the audited results of the financial year ended 31 March 2004 are as follows: -

Major suppliers	Length of relationship (Years)	% of total purchases
Mitsubishi Corporation (Singapore Branch)	>5	35.53
Exxonmobil Chemical (M) Sdn Bhd	>5	16.28
BASF Petronas Chemical (M) Sdn Bhd	>5	13.69
Industrial Resins (Malaysia) Berhad	>5	11.22
Vinythai Public Company Ltd	1	4.87
AISB	3	2.66
Omya Malaysia Sdn Bhd	>5	2.58
Coin Chemical Industrial Co Ltd	1	2.41
Sun Ace Kakoh Pte Ltd	>5	2.23
Epchem International Pte Ltd	>5	1.24
Total		92.53

Save for Mitsubishi Corporation (Singapore Branch), Exxonmobil Chemical (M) Sdn Bhd, BASF Petronas Chemical (M) Sdn Bhd and Industrial Resins (Malaysia) Berhad, who contribute approximately 35.53%, 16.28%, 13.69% and 11.22% respectively in the financial year ended 31 March 2004, none of the suppliers individually contributes more than 10% of HLSB's purchases.

HLSB does not foresee any difficulties in procuring the raw materials as HLSB is able to identify additional suppliers should the need arise. In addition, HLSB consistently undertakes to maintain good relationships with all its existing suppliers and to increase its supplier base to lessen HLSB's dependence on any one supplier.

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**6. BUSINESS OVERVIEW (Cont'd)**

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To ensure a constant and reliable supply of raw materials, HLSB continuously reviews its existing suppliers based on the quality of the raw material supplied, the punctuality of delivery, trustworthiness and commitment. For a new supplier to be included in HLSB's supplier list, the supplier will have to provide a raw material sample for testing. If it is of acceptable quality, the supplier would provide a quotation for HLSB's consideration. With this process, HLSB is able to maintain its product pricing and avoid stock shortages and supplies disruption.

**(j) Quality control procedures**

The management of HLSB practices stringent quality processes with strong emphasis on producing high quality products. These practices and standards have been established and enhanced over the fourteen (14) years of operations. With such experiences, the management of HLSB have identified key points of the production process where stringent control measures are applied and strictly adhered to.

HLSB's company's in-house process and quality control methods have managed to maintain its product quality consistency. Experienced and trained personnel conduct frequent inspections of various key points of the production process. Any non-conformance or problems are detected early and actions are taken to remedy the process.

Laboratory tests are also carried out on the finished products to ensure the quality of the products. In order to improve testing capabilities and to meet increasing customers' demands, HLSB has consistently upgraded its testing and laboratory equipment. HLSB also constantly strives to upgrade its equipment to achieve an overall operational effectiveness.

In-line with the strong quality emphasis from the top management, HLSB is planning towards obtaining ISO9001:2000 certification. Currently, the company is in the midst of preparing itself by improving its production/safety procedures and training its employees in order to meet the ISO9001:2000 Standards. The Directors has anticipated that HLSB will be ready for inspection/assessment in early 2005, and thereafter obtain the ISO9001:2000 certification by the second quarter of 2005.

**(k) Interruption/disruption in business**

There has been no interruption in HLSB's business activities during the past twelve (12) months, which has had a significant effect on the operations of the company.

**(l) Employees**

As at 15 August 2004, HLSB has a total workforce of thirty-two (32) employees. HLSB recognises the need for a team of experienced, dedicated and committed technical staff. The production of PVC compound requires expertise and skills and to supplement the need of such skills, HLSB provides constant on-the-job training by senior technical staff.

The employees of HLSB do not belong to any labour union and enjoy a cordial relationship with the management. There is no labour or industrial dispute in the past between employees and the management.

**6. BUSINESS OVERVIEW (Cont'd)**

The breakdown of the total number of employees and their average number of years in service are as follows: -

<b>Category</b>	<b>No. of employees</b>	<b>Average no. of years in service</b>
Managerial/professional	4	7
Technical/supervisory	8	3
Clerical, general and factory workers	20	3
<b>Total</b>	<u>32</u>	

**(m) Production capacities and output**

The production output of HLSB based on the audited financial results for the past five (5) years ended 31 March 2004 are as follows: -

<b>Years ended 31 March</b>	<b>Production Capacity (MT)</b>	<b>Production Output (MT)</b>	<b>Sales value (RM)</b>
2000	3,500	2,980	10,173,700
2001	3,500	3,260	9,349,560
2002	7,100	4,500	12,218,100
2003	7,100	4,692	13,670,167
2004	7,100	5,871	18,163,750

HLSB does not have any constraints on its production/operating activities in the last twelve (12) months.

**(n) Contractual agreements**

HLSB does not have any contractual agreement with its customers but receives recurrent orders from its long-standing customers.

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## 6. BUSINESS OVERVIEW (Cont'd)

### 6.2.2 Lubricant and one pack lead system

#### (a) Principal products

The manufacturing of calcium stearate, zinc stearate and one pack lead system is undertaken through AISB. AISB began its production activities in April 2002 when it successfully produced calcium stearate to be used by HLSB in its production of PVC compound.

Thereafter, the company began developing another product, zinc stearate, used in the rubber and paint industries. In January 2003, the company developed its latest product, Complex WT 708, a one pack lead system that contains calcium stearate which acts as a lubricating property for PVC used in the cable industries.

The major products manufactured by AISB and its end applications are as follows: -

Product range	End applications
Calcium stearate and Zinc stearate	<ul style="list-style-type: none"> <li>- PVC processing</li> <li>- PE manufacture and processing</li> <li>- Polystyrene</li> <li>- Polyesters</li> <li>- Paint and lacquer</li> <li>- Polyurethane</li> <li>- Abrasive paper</li> <li>- Latex and rubber process</li> <li>- Building materials</li> </ul>
Complex WT 708	- One pack lead system that provide lubricating properties for cable compound.

#### (b) Location of operations

AISB currently operates from a rented semi-detached factory in Johor Bahru. The factory is rented from Teoh Kooi Kim, who is Dr. Chua Kee Lam's wife for a monthly rental of RM3,000 per month for one year period, renewable annually. Details of the rented factory are as follows: -

Location	Status	Land area/ Built-up area (Square metres)	Annual production capacity (MT)	Activity
No.18, Jalan Canggih 6, Desa Cemerlang, Johor Bahru	Rented	836 / 465	260	Manufacturing of stearates/ one pack lead system

**6. BUSINESS OVERVIEW (Cont'd)**

**(c) Technology/software/system used by AISB**

The following technology/system applied by AISB in the production of stearate is developed in-house by the R&D team: -

		Description
1.	Super Mixer	: Mixer with cooling system blender is used in mixing the ingredient to initiate a chemical reaction
2.	Disc Mill and pulveriser	: Milling machine used to attain fineness in the ingredient

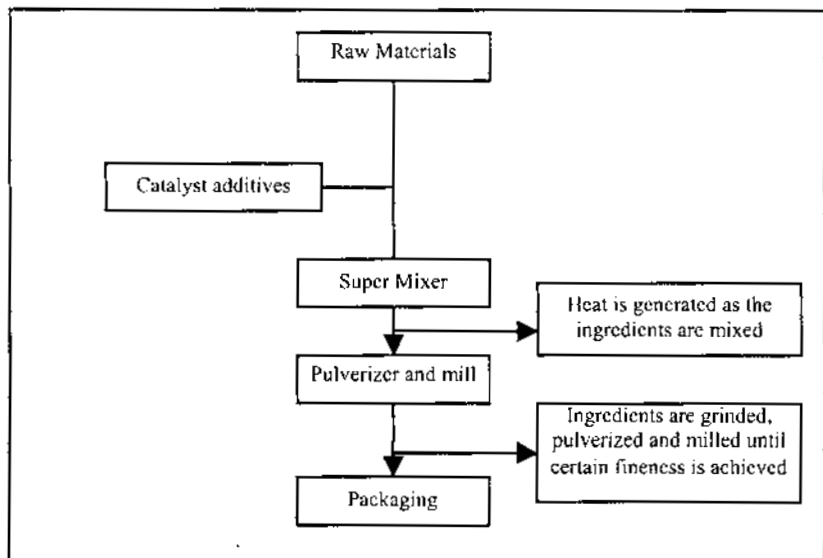
AISB is currently operating two (2) units of Disc Mills complete with one (1) unit of pulveriser and one (1) unit of Super Mixer with a capacity of 100 MT and 160 MT respectively. The Super Mixer basically acts as a blending machine to mix the raw materials at a high speed to initiate the chemical reaction. The Disc Mill and pulveriser will then mill the mixture to required fineness.

**(d) Production and process**

AISB's production activities comprise of the manufacturing of stearates and one pack lead systems as follows: -

Manufacturing of stearates

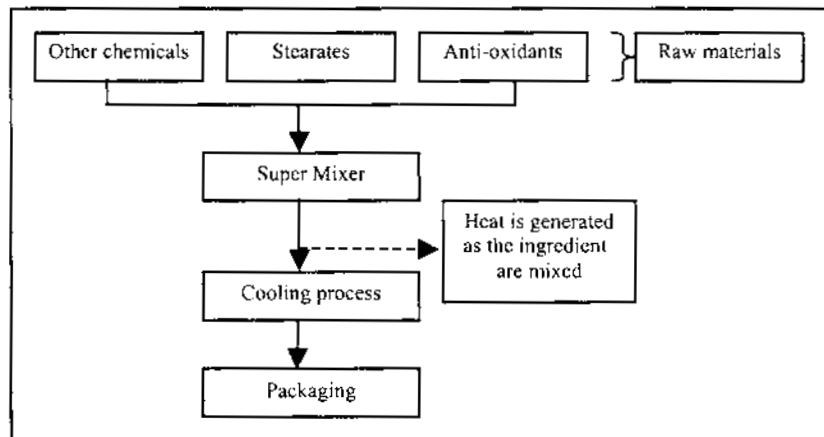
Firstly, the raw materials together with the catalyst are mixed in a super mixer. The mixing of the chemicals at high speed will initiate a chemical reaction. The heated mixture will then be cooled down for a few minutes before it is transferred into a pulverizer and milled until the required fineness is attained. The mixture, which by now will be in powder form, will then be transported for packaging. The process consists of several major steps as diagrammatically illustrated below: -



## 6. BUSINESS OVERVIEW (Cont'd)

### Manufacturing of one pack lead systems

Raw materials such as stearates, together with other chemicals and antioxidants are mixed in a super mixer until they are homogeneous. Similar to the manufacturing of stearates, the mixing of the chemicals at high speed will initiate a chemical reaction. Thereafter, the heated mixture will be cooled and subsequently packed. The process can be illustrated below: -



AISB currently owns a total of two (2) units of machines, which have a maximum production capacity of 260 MT per year. It currently produces approximately 168 MT per year. The machines currently operate in two twelve (12) hour shifts daily, seven days a week except for maintenance, which is carried out once every two weeks.

#### (e) **Market position/market share**

The stearates and one pack lead systems currently being produced by AISB are new products that were recently developed. Accordingly, its present market position is relatively insignificant to the overall Malaysian market for stabiliser and lubricant.

AISB supplies its stabiliser, lubricant and plastic additives to large corporations and SMEs including Industrial Resins (M) Sdn Bhd, Kinta Powertec Sdn Bhd, Tegas Venture Sdn Bhd, KP Mineral and Chemical Sdn Bhd, and Wonderful Wire & Cable Berhad, Universal Cable (M) Bhd, JGP Perrite Sdn Bhd, Advance Technology Sdn Bhd, Da Earn Mineral Sdn Bhd, which are principally involved in inter-alia, PVC compounder and processor, ABS compounder, wire and cable industry, paint industry and cement industry.

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## 6. BUSINESS OVERVIEW (Cont'd)

## (f) Significant new or proposed new products

The products that AISB plans to develop over the next three (3) years are as follows: -

New products	Applications	Estimated year of launching
Magnesium stearate	Pharmaceuticals, cosmetics, building and ABS/High impact polystyrene manufacturing industries	2006
One pack lead free system	One pack stabilisers that contain metal stearates to provide stabilising and lubricating properties for PVC compound, due to the trend that many industries are moving towards heavy metal free "Green" formulations	2006
Sodium stearate	Latex and rubber compounds and chemical industries	2007

## (g) Major customers

AISB's customers range from SMEs to large corporations. The major customers of AISB's excluding HLSB, based on the audited results for the financial year ended 31 March 2004 are as follows: -

Name of customer	Length of relationship (Years)	% of total sales
HLSB	3	28.43
Universal Cable (M) Bhd	1	27.13
Industrial Resins (M) Sdn Bhd	2	14.53
Wonderful Wire & Cable Berhad	2	7.66
KMSB	1	5.78
Advance Technology Coatings Sdn Bhd	1	2.67
Multichem Resources	2	1.67
Bayderm Chemical (Johor) Sdn Bhd	1	1.53
Linachem Sdn Bhd	<1	1.34
Texchem Singapore Pte Ltd	<1	1.34
Total		92.08



**6. BUSINESS OVERVIEW (Cont'd)**

Save for HLSB, Universal Cable (M) Bhd and Industrial Resins (M) Sdn Bhd who contribute approximately 28.43%, 27.13% and 14.53% respectively of the company's revenue for the financial year ended 31 March 2004, none of the customers individually contribute more than 10% of AISB's turnover. In this regard, the Directors of AISB are of the view that AISB is not overly dependent on these customers. Notwithstanding to the above, AISB has taken the following steps to mitigate the dependency and to ensure continued business with the abovementioned customers:

- Proven track record in good services and quality of products; and
- Diversification of products and markets into other industries such as automotive and pharmaceuticals sectors.

**(h) Availability of raw materials**

The raw materials used in the manufacture of the AISB's products are readily available and AISB has not encountered any shortages in supply.

**(i) Major suppliers**

AISB is not dependent on any single supplier for any raw materials purchased, as there are many suppliers in the market. However, due to long-term relationship, its suppliers have supported the growth of AISB and AISB reinforces these relationships by repeating its orders from the same suppliers.

The details of AISB's major supplier based on the audited result for the financial year ended 31 March 2004 are as follows: -

Major suppliers	Length of relationship (Years)	% of total purchases
Korea Carbon Black Co. Ltd	1	32.36
HLSB	3	31.83
Akzo Nobel Oleochemicals Sdn Bhd	3	12.00
JJ-Degussa-Huls (M) Sdn Bhd	<1	6.17
Nanjing Shuguang Chemical Group Co. Ltd	<1	3.74
Xiang Xiang National Foreign Economics & Trade Corporation	1	3.48
KMSB	1	2.58
Nagase Singapore Pte Ltd	1	2.20
Rhodia Malaysia Sdn Bhd	<1	1.40
Bayderm Chemical (Johor) Sdn Bhd	<1	1.23
Total		96.99

**6. BUSINESS OVERVIEW (Cont'd)**

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Save for Korea Carbon Black Co. Ltd, HLSB and Akzo Nobel Oleochemicals Sdn Bhd, who accounted for approximately 32.36%, 31.83% and 12.00% of the total purchases of AISB respectively in the financial year ended 31 March 2004, none of the suppliers individually accounted for more than 10% of AISB's purchases.

AISB does not foresee any difficulties in procuring the raw materials. AISB does not maintain any agreements with its suppliers but has over the years built up relationships with a number of suppliers. AISB has recurrent transaction with the aforementioned suppliers and has good business relationship with them.

To ensure a constant and reliable supply of raw materials, AISB continuously reviews its existing suppliers based on the quality of the raw material supplied, the punctuality of delivery, trustworthiness and commitment. For a new supplier to be included in AISB's suppliers' list, the supplier will have to provide a raw material sample for testing. If it is of acceptable quality, the supplier would be asked to provide a quotation for AISB's consideration. With this process, AISB is able to maintain its product pricing, avoid stock shortages and respond to unforeseen supplies disruption promptly.

**(j) Quality control procedures or quality management programmes**

AISB emphasises strongly on product quality. Stringent quality control is practiced at various points of the production process. From the receipt of the raw material to the delivery of products to its customers, stringent checks are implemented to ensure that product quality is maintained.

To ensure that product quality is maintained, every batch of production sent to the customers is required to meet a specified quality standard. The standard of quality is of paramount importance as these products which are being used as additive for other types of materials, will significantly affect the characteristics of the original materials, although the quantum of additive used is small.

All products are strictly controlled to ensure that they conform to the specified quality standard. Tests are carried out for every batch of production and those which are unable to pass the required tests are reprocessed. Production process is strictly monitored at every stage. Material found to be different from the normal specifications at any process is purged out and reprocessed.

**(k) Interruption / disruption in business**

There has been no interruption in AISB's business activities during the past twelve (12) months which has had a significant effect on the operations of the company.

**6. BUSINESS OVERVIEW (Cont'd)****(l) Employees**

As at 15 August 2004, AISB has a total workforce of seven (7) employees. AISB recognises the need for a team of experienced, dedicated and committed technical staff. The production of stabilisers and lubricant requires expertise and skills and to supplement the need of such skills, AISB provides constant on-the-job training by senior technical staffs.

The employees of AISB do not belong to any labour union and enjoy a cordial relationship with the management. There is no labour or industrial dispute in the past between employees and the management.

The breakdown of the total number of employees and the range of number of years in service are as follows: -

Category	No. of employees	Average no. of years in service
Managerial/professional	1	2
Technical/supervisory	2	2
Clerical, general and factory workers	4	2
<b>Total</b>	<b>7</b>	

**(m) Production capacities and output**

The production capacities and output of AISB based on the audited financial results for the 15-month financial period ended 31 March 2003 and the financial year ended 31 March 2004 are as follows: -

Year/Period ended	Production Capacity (MT)	Production Output (MT)	Sales value (RM)
31 March			
15-month period ended 31 March 2003	100	31	119,422
Financial year ended 31 March 2004	260	161	647,278

AISB does not have any constraints on its production/operating activities in the last twelve (12) months.

**(n) Contractual agreements**

The company does not have any contractual agreement with its customers but receives recurrent orders from its long-standing customers.

**6. BUSINESS OVERVIEW (Cont'd)**

**6.3 MANUFACTURING OF OLEOCHEMICAL PRODUCTS**

**(a) Principal products**

The manufacturing of oleochemical products is undertaken by KMSB, a wholly-owned subsidiary of KIB. KMSB produces PKDE derived from palm kernel oil to be used as foam stabiliser in detergent and toiletries industries. PKDE can also be used as dispersing agent and in some chemical mixing processes. In addition, KMSB provides contract manufacturing services for the consumer and products namely hair and body shampoo, biodegradable household and industrial cleaning liquid, disinfectant cleaner.

KMSB also produces CDP, a non-toxic semi-finished raw material which can be used to make many different cleaning liquids such as laundry liquid, car shampoo, dishwashing, multi-purpose cleaner and liquid hand soap.

The end applications of the major products manufactured by KMSB are as follows: -

<b>Product range</b>	<b>End applications</b>
<u>Raw material:</u>	
PKDE	- As foam stabiliser in the manufacturing of detergent and toiletries as well as dispersing agent and in some chemical mixing processes
CDP	- As semi-finished material for manufacturing of detergents and industrial cleaner
<u>Consumer products:</u>	
Hair and body shampoo	- Personal care products
Dishwashing liquid	- Household usage
Laundry liquid detergent	- Household and industrial usage
Multi-purpose cleaner	- Household and industrial usage
Disinfectant cleanser	- Household and industrial usage
Degreaser	- Industrial usage

## 6. BUSINESS OVERVIEW (Cont'd)

## (b) Location of operations

KMSB currently operates from rented factory lot in Shah Alam and it has recently purchased a piece of land in Mah Sing Integrated Industrial Park, Shah Alam for future expansion. Details of the factories are as follows: -

Location	Status	Land area /Built-up area (Square metres)	Annual production capacity (MT)	Activity
No. 25, 27 and 29 Jalan Bulan U5/4 Section U5, Sungai Buluh Batu 3 (Subang 2) 40150 Shah Alam Selangor Darul Ehsan	Rented	836 / 1,022	3,150 per year	Production of PKDE, CDP, toiletries and cleaning liquid
Lot No. 1031 Jalan Utarid U5/16 Mah Sing Integrated Industrial Park Bandar Pinggiran Subang 40150 Shah Alam	Construction in progress*	2,046 (Land area)	-	Production of PKDE, CDP, toiletries, cleaning liquid, Betaine, BKC and Unicon

**Note:**

\* Construction is expected to be completed by end October/early November 2004. Production will only commence upon receiving certificate of fitness for the factory from local authority and the completion of the relocation of existing production facilities into the factory which is estimated to be in early 2005

## (c) Technology/software/system used by KMSB

Save for the accounting software used by the company, the technology applied by KMSB in the production of PKDE, CDP and other cleaning liquid and toiletries is developed in-house by the R&D team. Details of the technology/systems used by KMSB are set out below: -

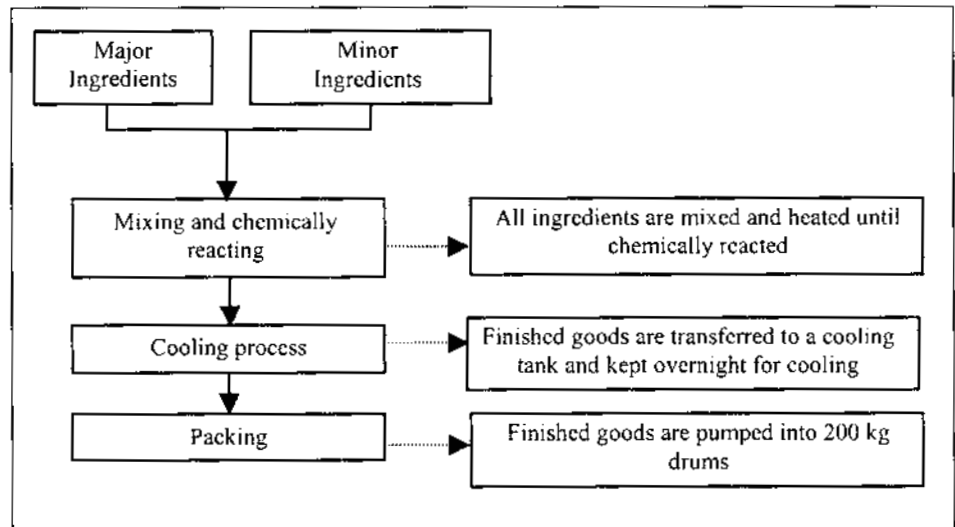
Description	
1. Computer Accounting Software (UBS)	: Computerised accounting system for daily transactions and capable of generating reports, statements, etc.
2. Blagdon Pumps	: Air-operated double diaphragm pump to pump raw materials
3. Weighing machines	: Electronic controlled weighing device measuring up to 300 kgs to weigh raw materials and finished products
4. Filling machines	: Pneumatic controlled filling unit with filling capability of 10g to 1500g for packing purposes

## 6. BUSINESS OVERVIEW (Cont'd)

In addition to the above, KMSB's manufacturing activities are operated by two (2) units of PKDE Mixers, two (2) units of Behn Sharpers and two (2) units of CDP Mixers. Please refer to ensuing paragraphs for further details of KMSB's machinery.

### (d) Production and process

The main manufacturing process of PKDE and CDP involves mixing and heating of the raw materials until complete chemical reaction of the mixture has been attained. The mixture will then be transferred into a cooling tank and kept overnight. The finished products are pumped into 200 KG drums before being distributed to the customers. The process may be diagrammatically illustrated below: -



KMSB currently owns a total of six (6) units of machines, which have a maximum production capacity of 3,150 MT per year. It currently produces approximately 2,115 MT per year. The machines are currently running on eight (8) hours single shift daily, six (6) days a week.

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**6. BUSINESS OVERVIEW (Cont'd)**

**(e) Market position/market share**

The main players in the surfactant industries include Cognis Oleochemicals (M) Sdn Bhd, Matrix Corporation Sdn Bhd, Palmamide Sdn Bhd and Southern Edible Oil Industries (M) Sdn Bhd.

The annual sales of the surfactant industry increased at an annual compounded growth rate of 6.8% between 1991 and 2003 underpinned by the strong demand for soap and cleaning preparations. In 2003, the market size is estimated at RM95 million sales per annum.

Based on KMSB's sales of RM4.3 million in 2003, KMSB is estimated to have a market share of 4.6% in the surfactant industry.

*(Source: Industry Report on Polymer and Surfactant Industries in Malaysia – RAMCS)*

KMSB is a contract manufacturer of water treatment chemicals and detergents such as shampoo, dishwashing liquid and floor cleaner to Malaysian companies namely Yee Lee Trading Berhad Group and Behn-Meyer Techno-Chemicals Sdn Bhd. In addition, KMSB also produces PKDE of which approximately 89% is sold locally whilst the remaining 11% is exported overseas mainly to the Middle East, Thailand, Vietnam and Singapore via its distributors and agents. Of its local sales, approximately 50% of the PKDE manufactured is sold through local agents such as Kong Long Huat Chemical Production Sdn Bhd and Hong Aun Kimia Sdn Bhd and the remaining 50% sold directly to end-users such as Ken-Rich Chemical Production Sdn Bhd and Clover Resources Sdn Bhd.

**(f) Significant new or proposed new products**

The products that KMSB plans to develop over the next three (3) years are as follows:-

New products to be launched	Applications	Expected to be developed by
Betaine	A mild surfactant chemical used in the production of toiletry products and can generally be used to improve foam generation and liquid viscosity	2005
BKC	Mainly used as an anti-fungus material for laundry and washing detergent	2006
Unicon	A semi-finished raw material which is biodegradable, has lower cloud point, and better rinsing effects	2007

**6. BUSINESS OVERVIEW (Cont'd)****(g) Major customers**

KMSB's customers range from large corporations to SMEs and sole proprietorships. The major customers of KMSB's major customers based on the audited results for the financial year ended 31 March 2004 are as follows: -

Name of customers	Length of relationship (Years)	% of total sales
Hong Aun Kimia Sdn Bhd	5	6.68
Kong Long Huat Chemical Production Sdn Bhd	3	5.27
Nobel Specialty Sdn Bhd	3	5.00
Grochem (M) Sdn Bhd	6	3.28
Square Enterprise (sole proprietor)	6	3.13
Ken-Rich Chemical Production Sdn Bhd	4	2.88
Hung Chun Sdn Bhd	6	2.30
Syarikat Perniagaan Kit	6	2.08
Clover Resources Sdn Bhd	6	2.05
Yee Lee Trading Berhad Group	1	1.83
Total		34.50

KMSB has a wide customer base and is not dependent on any one or group of customers. The major customers of KMSB accounted for approximately 34.50% of its total revenue for the financial year ended 31 March 2004 and none of them individually contributes more than 10% of the revenue of KMSB.

**(h) Availability of resources**

The main raw material used by KMSB is palm kernel oil. It constitutes approximately 40% of the total raw material costs and is readily sourced locally. KMSB is not dependent on any single supplier for any raw materials purchased.



**6. BUSINESS OVERVIEW (Cont'd)****(i) Major suppliers**

The details of KMSB's major suppliers based on the audited results for the financial year ended 31 March 2004 are as follows: -

<b>Major suppliers</b>	<b>Length of relationship (Years)</b>	<b>% of total purchases</b>
ACE Edible Oil Sdn Bhd	6	40.28
Finn Chemicals Sdn Bhd	3	33.33
Meilun Food Sdn Bhd	3	4.29
Hong Aun Kimia Sdn Bhd	4	4.18
Cognis Chemical (M) Sdn Bhd	6	3.48
BASF (M) Sdn Bhd	6	1.24
Irmal Sdn Bhd	3	1.01
Nardev Chemie Sdn Bhd	3	0.31
<b>Total</b>		<b>88.12</b>

Save for ACE Edible Oil Sdn Bhd and Finn Chemicals Sdn Bhd, that contribute approximately 40.28% and 33.33% respectively in the financial year ended 31 March 2004, none of the suppliers individually contributes more than 10% of KMSB's purchases.

KMSB does not foresee any difficulties in procuring the raw materials. KMSB does not maintain any agreements with its suppliers but has over the years built up relationships with a number of suppliers. KMSB has recurrent transactions with the aforementioned suppliers and has good business relationship with them. It has also at least two (2) alternative regular suppliers to limit dependency on any one of them.

**(j) Quality control procedures**

KMSB emphasises strongly on product quality. Stringent quality control is practised at various points of the production process. From the receipt of the raw material to the delivery of products to its customers, stringent checks are implemented to ensure that product quality is maintained. In the production process, the percentage of each respective raw material is accurately weighted and temperature for each step is strictly monitored and each batch of product is tested to check its viscosity and cloudy points, PH value and colour. Such quality assurance process would enable KMSB to maintain high product quality.

**(k) Interruption/disruption in business**

There has been no interruption in KMSB's business activities during the past twelve (12) months which has had a significant effect on the operations of the company.

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**6. BUSINESS OVERVIEW (Cont'd)**


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**(i) Employees**

As at 15 August 2004, KMSB has a total workforce of thirteen (13) employees. KMSB recognises the need for a team of experienced, dedicated and committed technical staff. The production of PKDE and toiletries products requires expertise and skills and to supplement the need of such skills, constant on-the-job training is provided by senior technical staff.

The employees of KMSB do not belong to any labour union and enjoy a cordial relationship with the management. There is no labour or industrial dispute in the past between employees and the management.

The breakdown of the total number of employees and the average of number of years in service are as follows: -

Category	No. of employees	Average no. of years in service
Managerial/professional	2	4
Technical/supervisory	2	5
Clerical, general and factory workers	9	5
<b>Total</b>	13	-

Generally, the existing experienced personnel of the KIB Group will provide in-house training sessions and external training programme to employees for continuous upgrading of skills and technical knowledge and management know-how of the employees. The Group has established an ESOS as part of its Flotation Scheme to further reward its employees for their loyalty and contributions to the success of the Group. The Group has ambitious plans for growth and with the higher profile achieved through the listing exercise, the ability of the Group to attract qualified knowledge workers in future to cater for the anticipated growth will be enhanced.

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**6. BUSINESS OVERVIEW (Cont'd)****(m) Production capacities and output**

The production output of KMSB based on the audited financial results for the past five (5) years/period ended 31 March 2004 are as follows: -

Years ended 31 March	Production Output (MT)		Sales value (RM'000)		
	Capacity	Actual	PKDE	CDP and other products	Total sales value
1999	1,000	930	2,127	990	3,117
2000	1,500	1,288	2,992	903	3,895
2001	2,000	1,313	3,392	485	3,877
2003*	2,400	1,760	4,126	825	4,951
2004	3,150	2,209	4,860	1,221	6,081

\* For 15-month period

KMSB does not have any constraints on its production/operating activities in the last twelve (12) months.

**(n) Contractual agreements**

KMSB does not have any contractual agreement with its customers but acts as a contract manufacturer for dishwashing liquid, water treatment chemical products, shampoo, shower gel, multi-purpose cleaner, laundry liquid and floor cleaner for companies such as Yee Lee Trading Berhad Group and Behn-Meyer Techno-Chemicals Sdn Bhd on an "order-to-produce", "order-to-blend" and "ad hoc" basis.

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6. BUSINESS OVERVIEW (Cont'd)

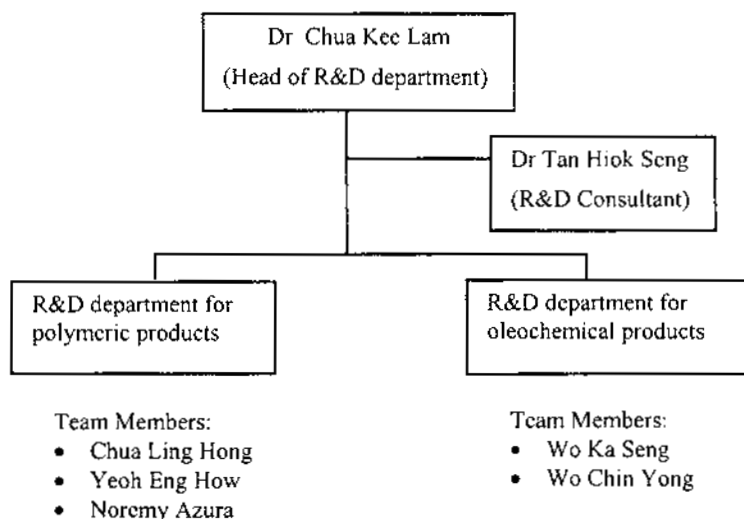
6.4 R&D

R&D plays a vital role in the operations of the KIB Group. KIB's strong R&D position provides it with a strong edge to enable it to operate competitively in the industry and continue in development of new products. KIB's policy on R&D is to innovate and develop new products that gives it the competitive advantage in the market primarily in Malaysia and secondly, neighbouring countries. KIB believes that technology is the key to its future growth and has been involved in R&D since setting up its business in 1990.

In product R&D, emphasis is placed on development of new products and continuous improvement of the quality of the products of the KIB Group. Alternative materials are tested to determine their applicability in meeting customers' requirements. This has enabled the KIB Group to grow from producing one type of PVC compound, to a range of various plasticised PVC compound, stearates, stabiliser, PKDE and CDP and end-user products for personal care, household and industrial usage.

The Group has an in-house R&D team who are trained in various disciplines and possesses knowledge to conduct R&D on new products that meet the varying needs and requirements of its customers. The R&D team is headed by Dr. Chua Kee Lam, the Managing Director who has thirty-five (35) years of experience in the field of chemistry. The R&D team also comprises Chua Ling Hong and Wo Ka Seng, both graduated from Nanyang University in Singapore and Wo Chin Yong, a graduate in Management and Management Information System from Purdue University, United States of America. In view of the anticipated expansion, the Group has intensified its recruitment drive by recruiting two additional technical personnel namely Yeoh Eng How, a graduate in Chemical Engineering from Melbourne University, Australia and Noremy Azura, a graduate in Industrial Chemistry from University of Malaysia, Sabah. The Group has also appointed Dr. Tan Hiok Seng, a PhD holder in Chemistry, as the consultant for the R&D team. He is responsible for advising and assisting Dr. Chua Kee Lam in analysing and developing new products and enhancing the features of the Group's existing products.

The present organisation structure for the Group's R&D department is illustrated as follows:



**6. BUSINESS OVERVIEW (Cont'd)**

In addition, the R&D activities of the two (2) separate divisions are carried out at the following premises:

R&D activities	R&D Department
Polymeric products	No. 103, Jalan Seroja 39, Taman Johor Jaya, 81100, Johor Bahru
Oleochemical products	No. 25, 27 and 29 Jalan Bulan U5/4 Section U5, Sungai Buloh Batu 3 (Subang 2), 40150 Shah Alam

The KIB Group has invested a total of approximately RM194,000 in R&D for the past three (3) financial period/years ended 31 March 2004 as follows:

	----- Financial period / year ended 31 March----->					
	2002		2003		2004	
	RM'000	% of turnover	RM'000	% of turnover	RM'000	% of turnover
R&D salaries	12	0.13	12	0.09	14	0.08
Cost of equipment	42	0.45	38	0.28	19	0.10
Upkeep and maintenance of R&D equipment	1	0.01	2	0.01	4	0.02
Set-up and renovation cost in the laboratory and R&D department	-	-	35	0.26	-	-
Testing and development	-	-	-	-	15	0.08

**6.5 KEY ACHIEVEMENTS**

One of the recent milestone achievements for the Group is the successful development of the Group's low smoke and flame retardant PVC compound, currently in demand by many industries due to the growing awareness of the dangerous threats posed by plastic materials during any fire hazard.

In addition, the R&D of the KIB Group has successfully developed and commercialised the following products:

- (a) Plasticised PVC compound for hose, lining and gasket
- (b) Plasticised lead-free PVC compound for toy
- (c) Heat and oil resistant PVC compound for industrial application
- (d) Ultra-violet-resistant and anti-termite PVC compound
- (e) Semirigid PVC compound for fencing
- (f) PVC color masterbatch in granular form
- (g) Complex WT 708
- (h) Calcium Stearate
- (i) Zinc Stearate

**6. BUSINESS OVERVIEW (Cont'd)**

Further, the R&D team of KMSB has recently successfully developed its own PKDE (oleochemical based) as a processing aid for the Group's polymeric production. The PKDE produced by KMSB is used as a pigment dispersing and lubricating agents for black and dark PVC compound produced by the KIB Group.

However, the above application is limited to black and dark color PVC compound as PKDE tends to develop yellowish color on heating as it contain unsaturated bonding structure. To solve this limitation, KMSB is currently in the midst of conducting R&D to develop palm stearamide (oleochemical based) using stearin as the starting material. The palm stearin to be produced by KMSB is intended to be used by HLSB as a pigment dispersing and lubricating agent for light colored PVC compound.

In addition, the KIB Group intends to conduct R&D to develop the following oleochemical additives for its polymeric production activities:

Oleochemical	Application in the production of the polymeric products
Butyl Stearate	<ul style="list-style-type: none"> <li>• Used as lubricant and pigment dispersion aid in the plastic industry</li> <li>• Used as skin lubricant/softener in cosmetic cream</li> </ul>
Fatty Amide	<ul style="list-style-type: none"> <li>• Used as lubricant, anti-blocking and mould release agent for polymeric processing</li> </ul>
Quaternary Ammonium Compound	<ul style="list-style-type: none"> <li>• Used as anti-static agent for plastic industry</li> </ul>

The KIB Group intends to conduct R&D on the above applications when KMSB's new factory located at Lot No. 1031 Mah Sing Integrated Industrial Park is ready by end 2004 as the Board of KIB is of the view that the R&D on the above applications require substantial amount of capital investment in machinery and equipment. In addition, the R&D on the above application requires more stringent safety measures and a larger factory space to separate the R&D facilities from the production facilities as the raw materials used in the R&D are flammable.

In addition to the above, the Group's R&D team plans to diversify and expand its polymeric product range to include polyolefin-based compounds namely XLPE, PE colour masterbatch and TPO/TPE modified compound, due to its wider application to various industries. TPO for example, is widely used in the automotive industry worldwide and has been deemed to be a replacement for certain polymeric compound for automotive body parts, such as fenders, doors, step-pads, body side trims and instrumental panels. The Group also foresees that the growth prospects of XLPE compound would be positive. This compound is lightweight and has the ability to improve heat insulation properties of wire and cable application.

As for its stearates and stabiliser division, the Group through AISB plans to develop other type of stearates and stabiliser such as magnesium and sodium stearates and one pack lead-free system. The development of these stearates and stabiliser will be a joint collaboration between HLSB and AISB. As HLSB seeks to continuously improve its production of PVC compound, these products will play an important role to enhance the Group's existing products. Through AISB the Group will then produce these stearates and stabiliser to be used for internal consumption and subsequently market to other compound manufacturers to achieve economies of scale.

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**6. BUSINESS OVERVIEW (Cont'd)**

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The Group is also expected to develop "Unicon", a semi-finished raw material to complement its existing range of oleochemical products. This product is in its trial stage. The qualities of this semi-finished raw material are its biodegradable function, low cloud-point, better washing power and rinsing effects.

Notwithstanding the above, the KIB Group plans to allocate approximately RM400,000, which shall be funded from internally generated funds to purchase laboratory equipment and other testing equipment.

**6.6 MODES OF MARKETING AND BUSINESS DEVELOPMENT****6.6.1 Modes of marketing**

The Group's present customers range from large corporations, MNCs and contract manufacturers involved in the manufacturing of plastics, packaging, moulding, PVC processing, E&E, cable, building materials, as well as producers of toiletries and detergents.

The Group carries out marketing and distribution of its products and services directly and via agents. Through interaction with its direct customers and agents, the Group is able to better understand the customers' requirements and hence be in a position to effectively provide the required solutions. In understanding the market position, the Group is able to pro-actively identify market needs and therefore increase demands for its products.

Most of the Group's polymeric products are being sold in the domestic market whilst its oleochemical products namely PKDE is 89% sold locally and the remaining 11% exported overseas mainly to Middle East, Thailand, Vietnam and Singapore via distributors and agents.

Currently, KIB is supplying its products directly to its customers through the Group's marketing team, which consists of Koay Choo Cheng, Chua Ling Hong, and Wo Chin Yong. These key personnel have vast experience in marketing of PVC compound and oleochemical products. With the stronger marketing team to be set up upon listing of the Company, KIB will be able to penetrate into new markets by understanding new market trends whilst continuously developing new products in order to enhance the Group's competitive edge.

**6.6.2 Business development strategies**

The Group's marketing and business development strategies include, inter-alia, the following: -

- (a) To produce international quality products at competitive pricing. The Group will continuously source for high quality raw materials at lower cost, manage its built-to-order marketing system and improve on its cost structure;
- (b) Leverage on its long-standing relationship and rapport between the Group's agent and its overseas customers to maintain and expand its overseas market;
- (c) Provide good prior and after-sales customer services and expanding customer base via referrals from existing customers;

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**6. BUSINESS OVERVIEW (Cont'd)**

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- (d) Provide technical know-how on the usage of KIB products, to its customers;
- (e) Active product promotion such as via advertisements in the annual trade journals and health journals; and
- (f) Constantly identifying, developing and catering to existing and new customers' needs in order to keep up with the market trends.

**6.7 INFORMATION ON THE COMPLEMENTARY AND SUBSTANTIALLY RELATED BUSINESS ACTIVITIES WITHIN THE KIB GROUP**

The business activities of the KIB Group that are linked by their natural reliance on each other as well as in the technical and research and development activities. Basically, all polymeric materials require the use of processing aids such as those manufactured by the KIB Group. These processing aids include the following:

1. Fatty amide, which function as anti-blocking agent and pigment dispersing agent in the polymeric process;
2. Metal stearate e.g. calcium stearate and zinc stearate that act as lubricant and acid scavenger in PVC and polyolefin (polyethylene/polypropylene) processing; and
3. One pack lead or lead-free system, which contains metal stearate as constituents and used as heat stabilisers with lubricating property in PVC compound processing

KMSB is currently producing and supplying PKDE, used as an anti-blocking agent and pigment dispersing agent in PVC compound processing, to HLSB. KMSB is also developing palm stearamide (oleochemical based) for improved color stability in PVC compound processing using stearamide as a starting material. PKDE is used in the production of black and dark color compound as PKDE tend to develop yellowish color on heating as it contains unsaturated bonding structure. Palm stearamide when developed will be used in the production of all other colors of PVC compound used in the PVC compounding industries.

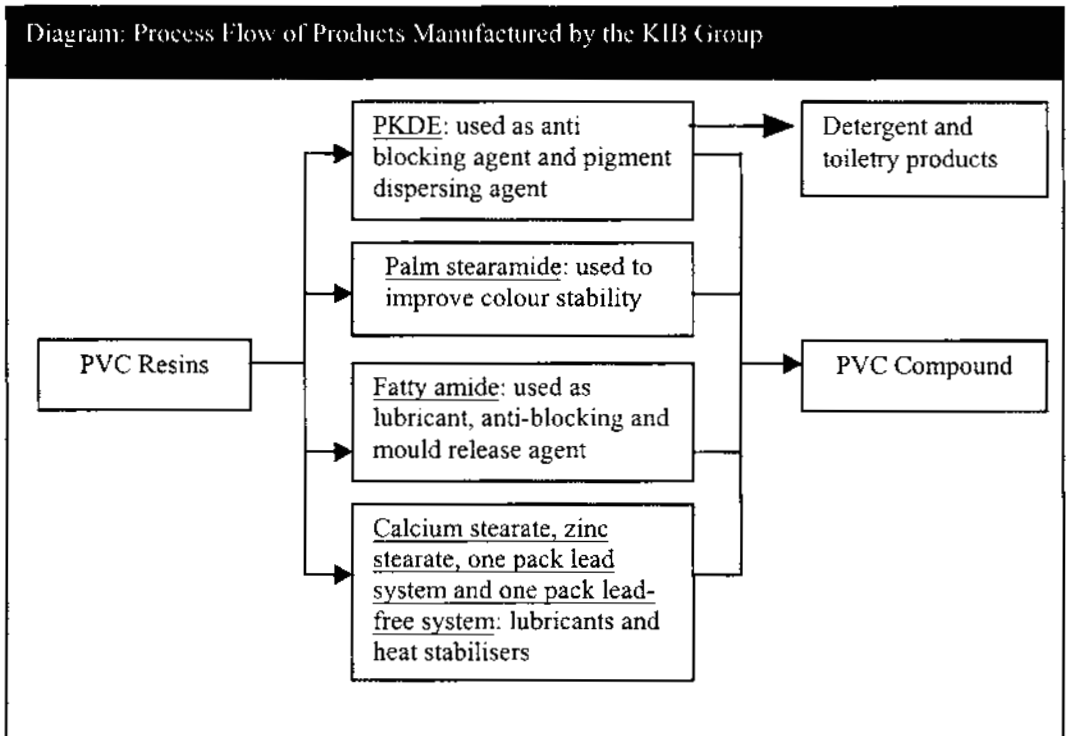
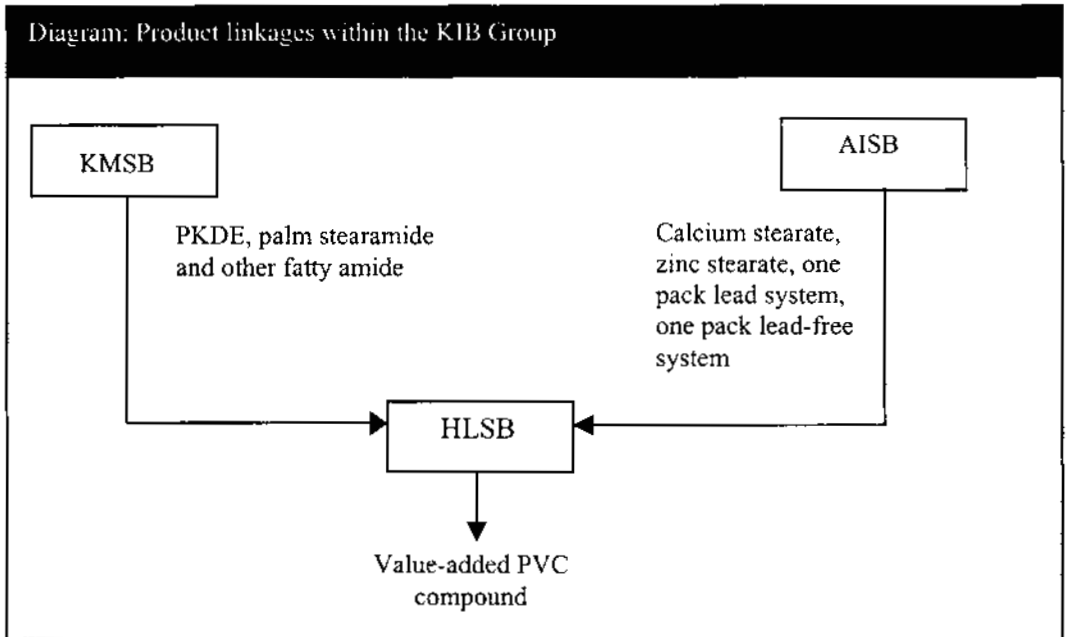
In addition, KMSB intends to conduct R&D to develop oleochemical additives for polymeric production activities. These additives such as fatty amide are used as lubricant, anti-blocking and mould release agent for polymeric processing.

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6. BUSINESS OVERVIEW (Cont'd)

AISB is currently producing calcium stearate, zinc stearate and one pack lead system and one pack lead-free system that are used as lubricants and heat stabilisers in PVC compound processing. HLSB is currently purchasing these materials from AISB.



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**6. BUSINESS OVERVIEW (Cont'd)**

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Currently, HLSB relies on AISB and KMSB for its supply of calcium stearate, zinc stearate, one pack lead system, one pack lead-free system and PKDE. As a result of the acquisition by KIB of the entire equity interests in HLSB, AISB and KMSB, KIB is in control of all the lubricants and processing aids required for the manufacturing of value-added PVC compound so as to meet the stringent quality requirements of its high-end customers. In this regard, HLSB can be assured of the quality of the PVC compound produced and be competitive in the industry.

Premised on the above, the manufacturing activities of the KIB Group i.e. manufacturing of PVC compound, PKDE, calcium stearate, zinc stearate and one pack lead system and lead-free system may be regarded as complementary business activities.

With the consolidation of ownership of HLSB, AISB and KMSB under KIB, the Group will also be able to enhance its R&D activities and derive savings in equipment, manpower and from reduction in overhead costs. This will allow the KIB Group to formulate better cross-linkages of its products mix to meet the demands of its end-clients.

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