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## 5. INDUSTRY OVERVIEW

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### 5.1 The Malaysian Economy

The Malaysian economy expanded by an impressive 8.0% in real terms, year-on-year in the second quarter of 2004 as against a 4.6% growth for the corresponding quarter of 2003. In nominal prices, this is equivalent to a 14.8% increase against the second quarter of a year ago. As such, the Malaysian economy is expected to strengthen further as compared to the GDP growth rate of 5.2% in 2003, building mainly on the strong growth momentum in the second half of 2003 and brighter prospects for global growth in 2004 which is expected to grow at 4.1%.

The manufacturing sector continued to register a double-digit growth, expanding by 12.1% in real terms in the second quarter of 2004 as against the corresponding quarter of 2003. The major group consisting of fabricated metal products, electronics, machinery and equipment which rose strongly by 17.7%, was the primary contributor to this impressive growth. This group accounted for 75.8% of the increase in this sector. Other major groups such as wood and paper products, printing and publishing registered a strong growth of 15.0% while the industrial chemicals, products of chemicals, plastic, rubber and non-metallic mineral products also achieved a growth rate of 8.2% for the second quarter of 2004.

In nominal prices, the manufacturing sector grew by 18.8% in this quarter with most of its major groups attaining higher growths.

The stock market is generally progressing positively with occasional volatility at times. The growing consumer and business confidence since the second quarter of 2003, strengthened economic fundamentals and the positive impact of pro-growth fiscal and monetary measure are expected to mutually reinforce robust consumer spending and the upturn in private investment activities.

Final consumption expenditure registered a strong growth of 10.4% in the second quarter of 2004 compared to 8.6% in the first quarter of 2004. This growth was contributed by a substantially higher private final consumption expenditure which expanded by 11.4% in the second quarter of 2004. Government final consumption expenditure also recorded an increase of 7.1%. Private consumption has become an important component of the economy. Measures to promote domestic consumption have resulted in a higher share of private consumption to real GDP. It is expected to strengthen to 8.1% in line with growing consumer confidence in 2004. Private investment is expected to expand at a stronger pace of 11.5% in 2004 as the rise in private capital spending gains further momentum due to more positive business sentiment, improved corporate cashflow positions and high capacity utilisation rates. This result in positive development in the manufacturing sectors with the manufacturing sector expected to achieve a growth rate of 10.2%, supported by the pick up in the global electronics industry and improved domestic demand. In the recent dialogues between Bank Negara Malaysia and the private sector, manufacturers in the electronics sector in Malaysia also expressed a more optimistic outlook for the industry in 2004.

The external sector continued to register double-digit gains in the second quarter of 2004 with exports growing by 19.3% and imports expanding by 25.3% in real terms. A similar trend was also evident in nominal prices where both exports and imports recorded double-digit increases of 24.7% and 27.7% respectively. The main impetus for the strong export performance came from electrical and electronic products, palm oil, timber and timber-based products, crude petroleum, and liquefied natural gas while the increase in imports came mainly from intermediate goods.

Consonant with the pick up in the global electronics industry and the spillover effects on the chemical products industry, growth in the export-oriented industries is projected to expand at more rapid rate of 13.8% in 2004. Similarly, growth in the domestic-oriented industries is

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expected to strengthen to 8.3%, due to improved demand for motor vehicles and construction-related materials.

With the list of favourable conditions mentioned above, the Malaysian economy is expected to achieve a real GDP growth rate of between 6.0% - 6.5% in 2004.

*(Source: National Product and Expenditure Accounts Second Quarter 2004 dated 23 August 2004, Department of Statistics, [www.statistics.gov.my](http://www.statistics.gov.my) and Bank Negara Malaysia, Annual Report 2003)*

### 5.2 The Malaysian Paints and Coatings Industry

#### 5.2.1 Introduction

Paints and coatings are used in various areas, such as packaging, durable goods, furniture, housing, signs, paper, and thousands of other marketed products. Paint or coatings is a pigmented opaque material that completely covers and hides the surface to which it is applied. Paints are available in both oil-based and water-based formulas. Most standard paints used for architectural coatings are opaque finishes. These can be oil-based versions, which, in general, have the texture of a light cream liquid. They can also be water-based latex paints that are thicker in viscosity. Some of the paints belonging to this category include flat finishes, undercoats, primers and sealers, gloss and semi-gloss finishes, textured paint and metallic paints.

#### 5.2.2 Industry Overview

The paints and coatings industry is cyclical in nature and loosely related to the economic condition of the country. The cyclical nature of the paints and coatings industry is best analysed by looking at the various end-user segments which it serves. The cyclical fluctuation of business conditions for such industries as construction, automotive and appliances, which is usually influenced by the overall economy, would affect the volume of sales for paints and coatings. With the current low interest rate regime being maintained by the Government, consumers are equipped with higher disposal incomes which increase the spending on automobiles, houses as well as customer electrical products and furniture, most of which consume paints and coatings to increase their aesthetics appeal. Rising population in Malaysia, translating into higher consumptions of furniture, household products, etc. and the active promotion by the Government on the furniture industry has also spurred the increase in sales of paints and coatings as the final finishing for these products. For 2003, the growth for chemical and chemical products which includes paints and coatings has improved significantly to 20.8% as compared to 2.7% in 2002.

Currently, there is no substitute for paints and coatings in the market. Therefore, its price is fairly inelastic. The price for automotive refinish range from RM20 to RM70 per litre, for plastics and polymers, the prices range from RM12 to RM110 per litre and for wood coatings, they range from RM6 to RM7 per litre in 2003. Since the economic slowdown during the 1998 financial crisis, the price of paints and coatings in Malaysia has been suffering a decline. It rebounded slightly in year 2000 and declined again in 2001, following a slowdown in the world economy that affected Malaysian exports.

Imports of paints and coatings into Malaysia for the 3 application areas are still negligible. However, this condition may change gradually over the forecasted period as the AFTA agreement slowly takes effect. With a more level playing field, there may be more imports of paints and coatings into the country. Nevertheless, Malaysia has sufficient number of local manufacturers to meet the local demand. Hence, there are limited imports.

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Major challenges facing the industry mainly come from the emergence of China as a manufacturing powerhouse, relatively small domestic market thus inability to achieve economies of scale and impediment of globalisation and tariff cuts by certain protectionist. With China emerging as the economic giant in Asia, most manufacturers are moving to China thus dwarfing the growth in manufacturing sector to a certain extent.

Furthermore, the potential growth of the plastic and coatings industry is to a certain extent indirectly restrained by the high vacancy rates in the property market thus restricting growth in the construction sectors, low capacity utilisation in the manufacturing industry and an overall slowdown in the Malaysia and global economy in spite of the recent geopolitical instabilities in the Middle East, and terrorist attacks in the Philippines and Indonesia.

*(Source: Independent Market Research Report, Bank Negara Malaysia Annual Report 2003)*

### 5.2.3 Technology Trends

In this industry overview, the Group will be focusing on three major end-user segments of the paints and coatings industry, namely, plastic/ polymer coatings, furniture coatings and automotive after-market coatings. The technology trend for all three (3) application areas are definitely moving towards environmentally friendly products that cures without emitting high levels of VOC. The use of solvent technology is declining while the use of water based technology is increasing in Malaysia. However, the move is still slower than most other developed countries as regulations and enforcement with regards to VOC content is still lacking in Malaysia.

In the automotive refinish market, water based paint falls in the high end range of paint types. It is also the most expensive. As such, it is being used sparingly in Malaysia. The slow adoption of water based paints is also due to insufficiently skilled body painters. Other paint technology which is expected to gain inroads in the future is the fast drying paint. It uses infrared lamps for drying purposes instead of the conventional ovens. Water based paint is essential for quick spot repairs and is extensively used in the UK. Malaysia is expected to adopt this technique in the near future as significant cost savings would result from spot repair and painting. Like water based paint, the drawback of this new technology is the lack of skilled personnel to do the paint job in the industry.

In the manufacturing of paints and coatings, there is an increasing trend towards the application of special varnish systems and pigments. Hence, there is a need for equipment capable of coping with this difficult dispersion process, which requires the uniform distribution of primary pigment particles. Besides that, it is also necessary to have the ability to formulate the various paints and coatings with their different technical characteristics, as required by the various end users.

*(Source: Independent Market Research Report)*

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### 5.3 The Paints and Coatings for Plastic Coatings End-user Industry

#### 5.3.1 Overview

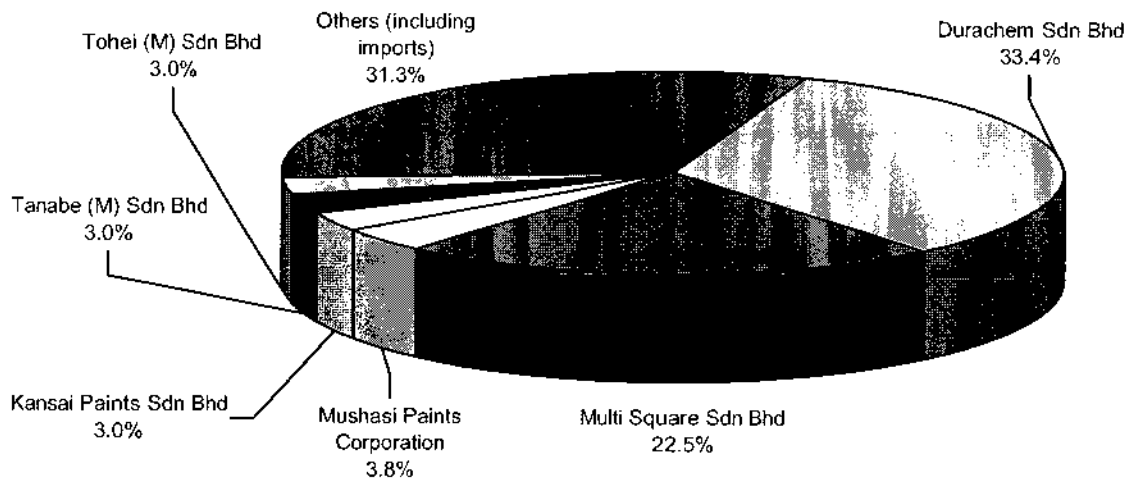
Plastic components, parts and casings are the primary users of plastics coatings in Malaysia. They are used primarily as component parts in the crucial electronics industry, as well as the electrical industry. The economic outlook for the electronics and electrical goods is expected to improve in 2004. In spite of concerns about slowdown in export-oriented industries, as a result of a slow US economy, growth in manufacturing in Malaysia remained strong, expanding by about 8.2% in 2003. The expected increase in plastics usage in the electrical and electronics industries is forecast to have positive effect on the plastics coatings market in Malaysia.

*(Source: Independent Market Research Report, Bank Negara Malaysia Report 2003)*

#### 5.3.2 Competition and Market Share

There are six (6) large plastic and polymers paint and coatings manufacturers in Malaysia. They consist of both multinationals as well as local companies. Both the multinationals and local companies compete on a level playing field. The multinationals have a more matured level of technology, due to more research and development activities conducted by them. However, the local companies are able to wrestle market shares from the large multinationals provided that they are able to meet the specifications, quality and price points of the end-users.

The market share by revenue for paints and coatings manufacturers for E & E industry in 2003 is as follows:



In 2003, the market size was approximately RM110 million. This figure however, excludes the sales of paints and coatings for automotive component parts, which is estimated at approximately RM193 million in the same year. Durachem Sdn Bhd is the major player in this segment, accounting for 33.4% of the market. This is followed by MSSB at 22.5% and Mushasi Paints Corporation at 3.8%. The market concentration of the top three companies is 59.7%. In 2003, companies like MSSB are seen to have increased their market share. The primary factors appear to be that these small companies are able to provide competitive pricing for reasonable quality products. This has enabled them to capture market share that was previously held by Durachem Sdn Bhd.

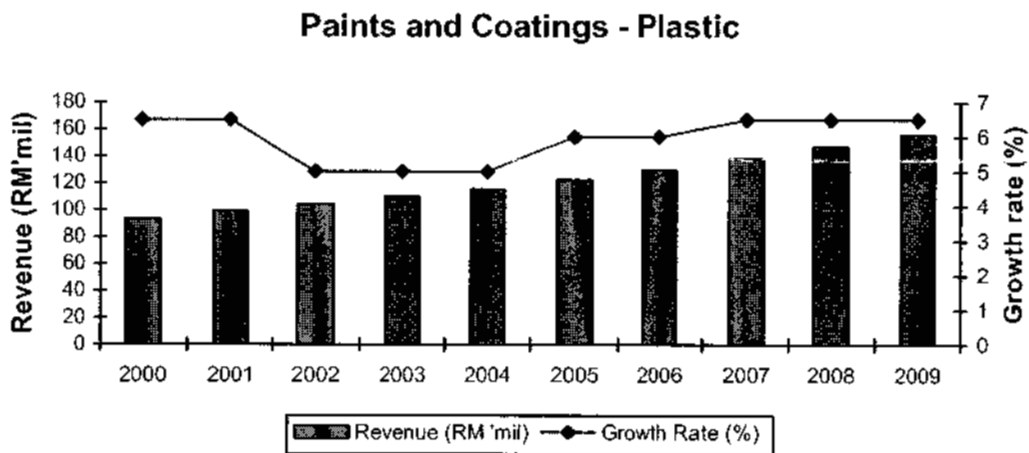
*(Source: Independent Market Research Report)*

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### 5.3.3 Future Prospects and Outlook

Growth for plastics coatings is partly spurred by an increase in the use of plastic parts and materials in E & E goods. The increase is also brought about by replacements of metal and wood materials by plastics, which serve to further strengthen the demand for plastics coatings. E & E equipment like household goods including washing machines, air conditioners, and vacuum cleaners are increasingly using plastic materials. All these factors serve to support growth in the plastic coatings segment.

The historical and forecast revenue for paints and coatings used for plastics in Malaysia from 2000 to 2009 is as follows:



The revenues for this market reflect the sales of paints and coatings for plastics products used in the E & E industries in the country. The market size for 2004 is estimated at RM115.5 million. Growth rate in 2004 is expected to remain stable for plastic coatings. Many companies in Malaysia are looking for export markets to complement their local market dominance and this is a positive note for local raw materials providers. An increase in exports of manufacturing goods is likely to increase local consumption of plastics coatings in Malaysia. The CAGR of plastics coating from 2003 to 2009 is calculated to be about 6.1% for the period.

*(Source: Independent Market Research Report)*

## 5.4 The Paints and Coatings for Furniture End-user Industry

### 5.4.1 Overview

The furniture industry covers a wide spectrum of products, including office furniture, household furniture, kitchen furniture, upholstered furniture, bedroom furniture, non-upholstered furniture, seat parts, furniture parts, wooden furniture, rubber wood furniture, hardwood furniture, panel based furniture, wood-based panels, particle board panels, fibreboard panels and MDF.

Wood coatings for interiors of buildings and furniture, have decorative roles (colour, gloss and transparency), and protect the furniture and other wood interiors against soiling and damage. Important fields with special requirements such as non-toxicity and low solvent emission include coatings for kitchen furniture, table surfaces, children's furniture, bedroom furniture and other interior decoration.

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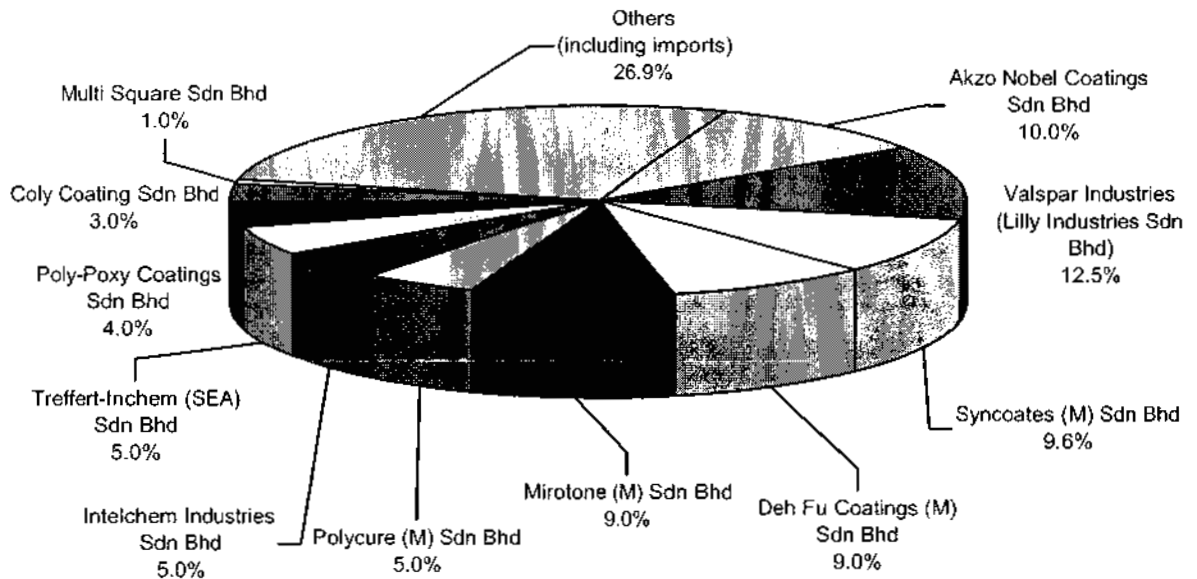
Growth in the furniture or wood coatings segment is currently low mainly because many of the local furniture manufactures face tough competition in their export markets, particularly China and Vietnam. In addition, Malaysia is also experiencing shortage of manpower and a declining supply of timber which inadvertently affects the furniture making industry.

*(Source: Independent Market Research Report)*

### 5.4.2 Competition and Market Share

There are approximately fifteen (15) competitors in the wood or furniture coatings market. However, among the notable and visible companies in the market are Valspar Industries (Lilly Industries Sdn Bhd) who is the market leader, followed by Akzo Nobel Coatings Sdn Bhd, Syncoates (M) Sdn Bhd, Deh Fu Coatings (M) Sdn Bhd, and Mirotone (M) Sdn Bhd. The furniture market is easier for smaller and local companies to penetrate and capture market share as furniture end users are typically smaller than the end users in the plastic industry. Price remains the single most important factor in the wood coatings market and the local companies, being smaller, are more flexible and have less overhead cost than large multinationals, thus have an advantage. However, in areas where premium and higher quality paints compete, the multinationals who have better access to paint technologies and techniques, are market leaders.

The market share by revenue for paints and coatings manufacturers for furniture in 2003 is as follows:



In 2003, the market size was approximately RM240 million. The paints and coatings market for furniture end-user market is highly fragmented and there is no clear leader with high shares of the market. Valspar Industries (Lilly Industries Sdn Bhd) was the market leader, with a market share of about 12.5%. This is followed by Akzo Nobel Coatings Sdn Bhd at 10.0% and Syncoates(M) Sdn Bhd at 9.6%. The market concentration of the top three companies in this end-user segment is 32.1%. Slower sales and increased competition in the local furniture market has resulted in many companies venturing into foreign markets in the segment of paints.

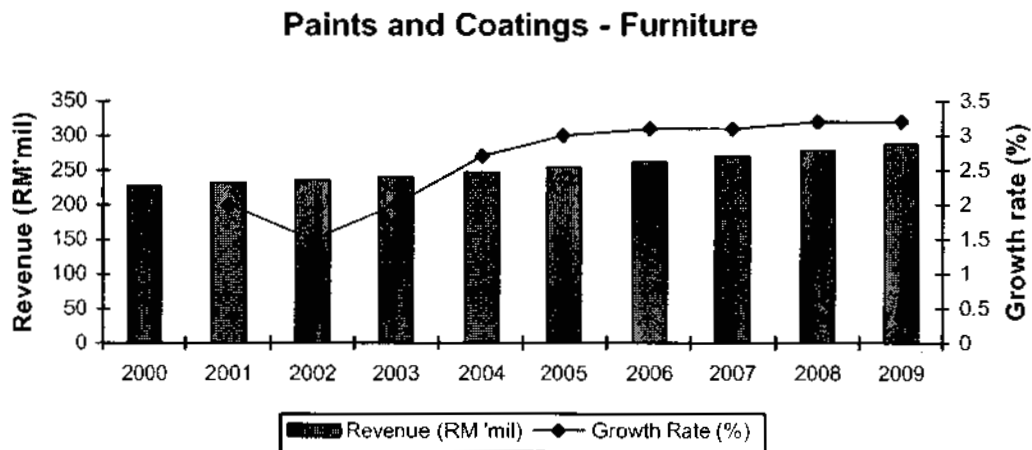
*(Source: Independent Market Research Report)*

## 5. INDUSTRY OVERVIEW

### 5.4.3 Future Prospects and Outlook

The furniture or wood coatings segment currently has the slowest growth rate among the coatings end-user markets. Many of Malaysia's furniture manufacturers are facing tough competition in their export markets, particularly from China and Vietnam. This has resulted in less than robust growth for the wood coatings segment in Malaysia. In addition, Malaysia is also experiencing a declining supply of timber from its logging industry which inadvertently affects the furniture making sector. Replanting of trees in logging areas and law requiring replanting are also not adequately enforced, causing depletion of supply of raw materials to the furniture industry. This also applies to rubber wood.

The historical and forecast revenue for paints and coatings used for the furniture end-user market in Malaysia from 2000 to 2009 is as follows:



The revenue for this market reflects the sales of paints and coatings used for furniture in the country. The paints and coatings for furniture in Malaysia is estimated to be valued at RM246.5 million in 2004. Higher growth of 2.7% in 2004 is expected for furniture coatings as the economy recovers and consumers begin to spend on refurbishments of houses and furniture replacements. The CAGR of furniture coatings from 2003 to 2009 is calculated to be only about 3.0% for the period. This segment of the coatings market has the slowest growth rate amongst the three coatings segment under study.

*(Source: Independent Market Research Report)*

## 5.5 The Paints and Coatings for Automotive End-user Industry

### 5.5.1 Overview

In recent years, the automotive manufacturers, under pressure from consumers and government agencies, have consistently sought to produce vehicles that are safer, less polluting, more durable, more fuel efficient and more maintenance-free. In light of these factors, the characteristics of the paints and coatings that contribute to these goals are important selling points for paint manufacturers. The characteristics that paints and coatings manufacturers strive to provide include greater durability, greater heat tolerance especially in high heat and humid conditions in Asia, greater safety, lighter weight and environmentally friendly or ease of recycling. In light of these developments, many automotive coating companies are working to develop specialty automotive coatings and undercoating that bears these characteristics. However, these coatings are more expensive.

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The Malaysian automotive paints and coatings market is at the mature stage with lower market growth for the OEM and aftermarket paints. OEM caters to new vehicle production and its growth rate is linked to new vehicle sales. The aftermarket is more significant as the large number of vehicle population provides a huge untapped market. Refinish are paints applied with less automation than OEM paints. It includes top coats, primers, and surfacers on plastic parts. Refinish automotive paints cures at the ambient temperature.

The aftermarket paints in Malaysia comprises of two segments: 2K and 1K. The 2K paint is more advanced and of better quality than the 1K paint. The dominant 2K paint consists of polyurethane lacquer while the 1K refinish products are made up of acrylic lacquer. 2K is the paint of choice for most cars on the road today. The 1K segment still exists to cater to the needs of budget conscious customers, especially commercial vehicle and old model car owners. The 2K paint type constitutes about 70% of the aftermarket while the 1K paint type comprises the remaining 30%.

*(Source: Independent Market Research Report)*

### 5.5.2 Competition and Market Share

There are six (6) large manufacturers of automotive refinish coatings in Malaysia. Most of the manufacturers compete within the same competitive tier. The companies in automotive refinish are largely multinationals as the market is perceived to be at the high end of the paints and coatings product segment and multinationals are positioned as quality and technologically advanced coatings suppliers. Quality is the most important factor in purchase decision, followed by price. Consumers of vehicles are very particular about the aesthetics of their vehicle, and would invest in premium quality coatings. In Malaysia, many large paint manufacturers appoint distributors in different regions to service the end users mainly auto body shops and used car dealers. A large number of distributors carry multiple paint brands and is not tied up with a single brand.

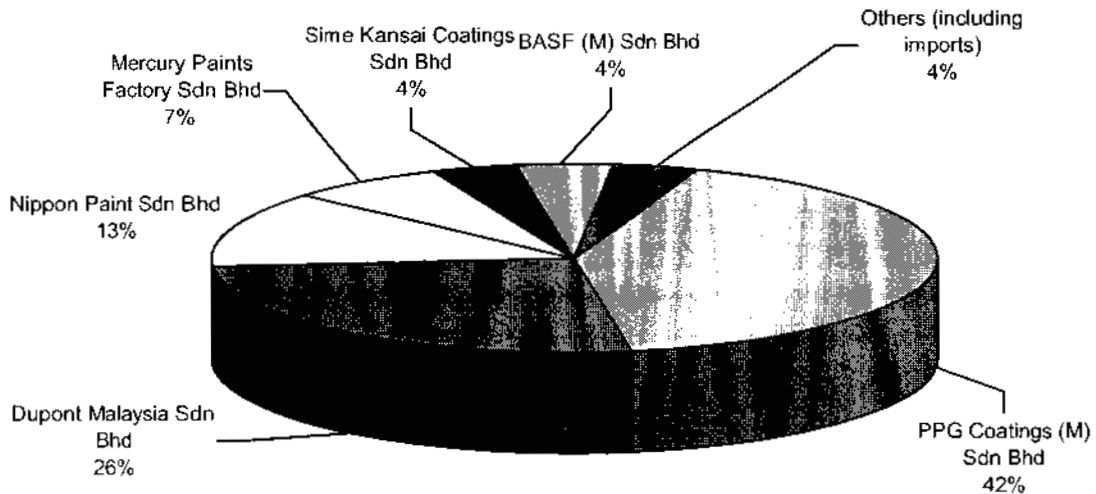
With competitive and stagnant market, improving relationships with distributors is an important strategy for manufacturers. Some of the steps taken by paint manufacturers to persuade distributors to sell their products are by offering bigger incentives and higher commissions.

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## 5. INDUSTRY OVERVIEW

The market share by revenue for paints and coatings manufacturers for the automotive market in 2003 is as follows:



In 2003, the Malaysia's automotive paints and coatings aftermarket was valued at almost RM55 million. PPG Coatings (Malaysia) Sdn Bhd is the market leader in this end-user segment, with a market share of approximately 42%. This is followed by Dupont Malaysia Sdn Bhd, at 26% and Nippon Paint Sdn Bhd, at 13%. The market concentration among the top three companies is about 81%.

While the market is dominated by large multinationals, the Malaysian market has also witnessed the influx of several imported Chinese brands in the local market in year 2003.

Despite their lower prices, local distributors prefer to use established paint brands manufactured locally due to the quality assurance and after-sales support that these established manufacturers have to offer. It is also expected that in the near future more foreign paint manufacturers would make Malaysia as the base for contract manufacturing of their paint products.

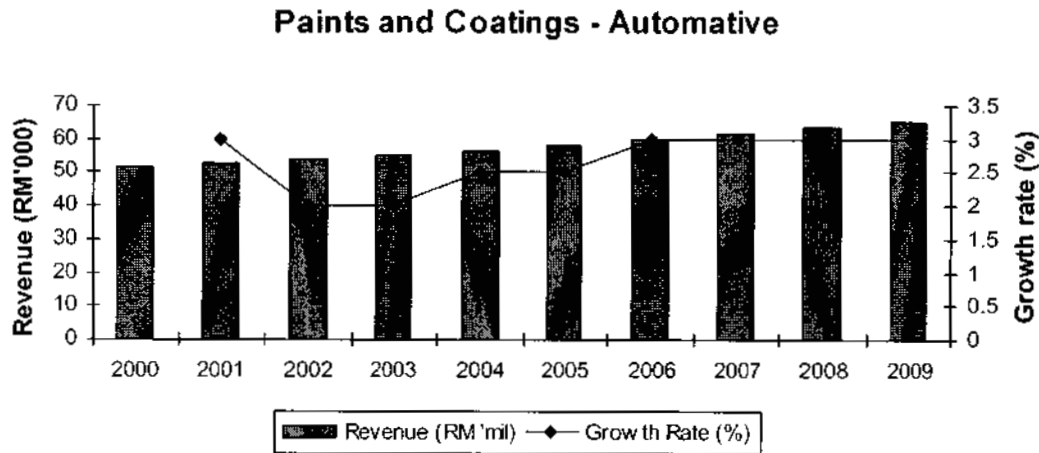
*(Source: Independent Market Research Report)*

### 5.5.3 Future Prospects and Outlook

The automotive industry in Malaysia is also the most diversified user of plastics. Of the different types of plastics, many are used in hundreds of automotive applications. Different polymers are chosen for their specific aesthetic and functional qualities. In the interior of the car, plastic materials have more or less gained an application saturation of approximately 80%. In recent years, the automotive manufacturers, under pressure from consumers and government agencies, have consistently sought to produce vehicles that are safer, less polluting, more durable, more fuel efficient and more maintenance-free. In light of these factors, the characteristics of the paints and coatings that contribute to these goals are important selling points for paint manufacturers. The characteristics that paints and coatings manufacturers strive to provide include greater durability, greater heat tolerance especially in high heat and humid conditions in Asia, greater safety, lighter weight and environmentally friendly or ease of recycling. In light of these developments, many automotive coating companies are working to develop specialty automotive coatings and undercoatings that bears these characteristics. However, these coatings are more expensive.

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The historical and forecast revenue for paints and coatings used for the automotive end-user market in Malaysia from 2000 to 2009 is as follows:



The revenues for this market reflect the sales of paints and coatings used for automotive (aftermarket) in the country. Automotive repair and refinish technology is expected to increase in Malaysia. With increase in car sales, the likelihood of damaged vehicles on the road is expected to increase. Companies such as Nippon Paint Sdn Bhd has recently developed a range of new glossy pigments, scratch-resistant coatings and super water-repellent coatings for cars, in response to demand from the body-shop business for simple solutions to fix minor defects. Automotive paint technology such as base-coat coating for bodywork repairs, fast-drying paints, quick, low-cost refinish system for minor defects, aerosol top-coats and primer-surfaces are expected to gain interests and demand in Malaysia. Nippon Paint Sdn Bhd has also gone on to developed new technologies for damage repair painting and refinishing geared towards the automotive paints aftermarket in Malaysia. Companies like PPG Coatings (Malaysia) Sdn Bhd are showing strong signs of interests in this segment of the market as well, with its acquisition of Imperial Chemical Industries's automotive coatings business division that includes the refinishing and body repair segments.

Malaysia's automotive paints and coatings aftermarket is estimated at approximately RM56.5 million in 2004. Growth in revenues is expected to be marginal for the period from 2003 to 2009 at CAGR of 2.8%. The durability, high gloss finish and better quality aspects of 2K paint are expected to contribute to its growth and popularity. The 1K paint segment is expected to be phased out over the next few years.

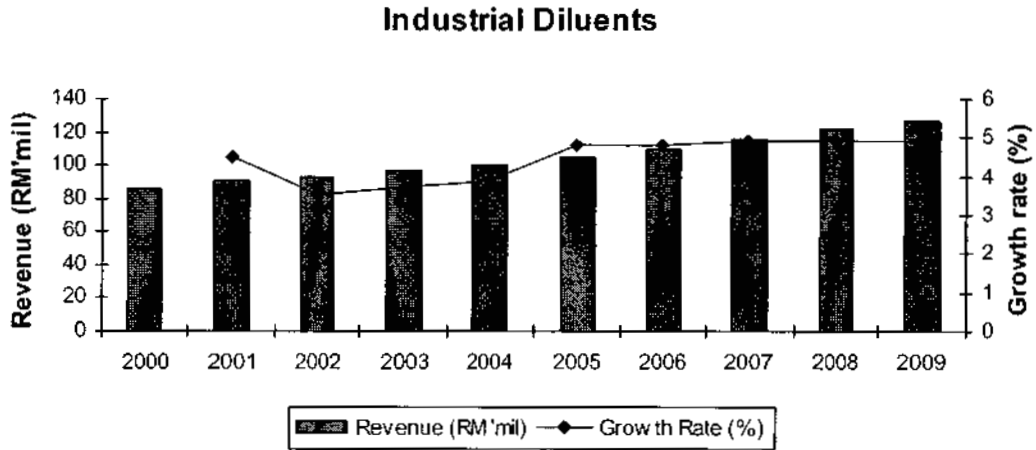
*(Source: Independent Market Research Report)*

### 5.6 The Industrial Diluents Market

The diluents market, i.e. thinners/ solvents, for paints and coatings in Malaysia is estimated to be RM97.0 million in 2003, with a growth rate of 3.7%. The CAGR for the period 2003 to 2009 is approximately 4.6%. The diluents market is expected to grow in tandem with both the wood and plastic coating segment. Diluents are used as solvents and are typically a part of the paint. Increasing use of certain diluents such as reactive diluents, may effectively reduce VOC emission since the diluents stay in the paint rather than evaporate away.

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The historical and forecast revenue for the paints and coatings diluents market in Malaysia from 2000 to 2009 is as follows:



The industry ratios for the use of diluents to paints are 1:1 for plastics coatings and 0.5:1 for wood coatings.

As diluents are commoditised products, few companies focus specifically on selling diluents. The diluents can be bought either separately from the paints suppliers or together as a package. Many suppliers encourage their customers to purchase both diluents and paints from a single source and they provide warranty or guarantee of quality. In most cases, end users do not get the warranty or guarantee of quality if they purchase the paints without the diluents. This seemingly encourages end users to buy paints and diluents together. However, in certain instances where cost is a major consideration, end users may purchase paints from one source and seek a cheaper supplier for diluents.

*(Source: Independent Market Research Report)*

### 5.7 Government Regulations, Policies and Incentives

The Malaysian Government, through MIDA, is highly dedicated towards implementing policies and providing specific incentives for investments in the manufacturing sector especially in strategic industries such as the petrochemical industry. For STB Group, it is eligible for the RA of up to 60% of its qualifying capital expenditure which can be used to offset against 70% of its statutory income for the year of assessment. This RA benefit is applicable for all manufacturing companies that had operated for twelve (12) months or more and incur qualifying capital expenditure for projects of expansion, modernisation, upgrading facilities, diversification as well as automation. Any unutilised RA can be carried forward to subsequent years until fully utilised. The RA will be given for a period of fifteen (15) consecutive years beginning from the year the first reinvestment is made.

*(Source: Promotion of Investment Act, 1986 as extracted from the website of Treasury Malaysia, Ministry of Finance, [www.treasury.gov.my](http://www.treasury.gov.my))*

## 6. INFORMATION ON STB GROUP

### 6.1 History

STB was incorporated in Malaysia under the Act on 28 December 2002 as a public limited company. It was incorporated as an investment holding company to facilitate the listing of the STB Group on the MESDAQ Market. STB obtained its certificate of commencement of business on 25 February 2003.

STB Group comprises STB and a wholly-owned subsidiary, namely MSSB, which is principally involved in the manufacturing and sales of paints, chemical solvents and industrial chemicals.

The Group, as at 13 September 2004 (being the latest practicable date prior to the printing of this Prospectus), does not have any associated company.

### 6.2 Share Capital and Changes in Share Capital

STB currently has an authorised share capital of RM10,000,000 comprising 100,000,000 STB Shares and an issued and paid-up share capital of RM7,119,850 comprising 71,198,500 STB Shares. Upon completion of the Public Issue, the issued and paid-up share capital of STB will increase to RM9,493,100 comprising 94,931,000 STB Shares.

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

Date of allotment	No of STB Shares	Par value RM	Consideration	Total issued and paid-up share capital RM
28 December 2002	2	0.10	Subscribers' shares	-*
1 September 2004	71,198,498	0.10	Purchase consideration for the MSSB Acquisition	7,119,850

\*Represents RM0.20 comprising two (2) STB Shares

### 6.3 Restructuring and Listing Scheme

In conjunction with and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of STB on the MESDAQ Market, STB undertook a restructuring exercise which was approved by MITI, SC and FIC (via SC), and Bursa Securities on 10 June 2003, 28 April 2004 and 29 April 2004 respectively. The revised Restructuring and Listing Scheme of STB were subsequently approved by MITI, SC and FIC (via SC) and Bursa Securities on 26 July 2004, 24 August 2004 and 25 August 2004 respectively.

The Restructuring and Listing Scheme involved the following:

#### 6.3.1 MSSB Acquisition

On 23 April 2003, STB entered into a Sale of Shares Agreement with the vendors of MSSB, namely SHSB, NVSB, Tan Yan Wah, Teo Kim Hock, Tan Bee Ngoh, Tan Fie Jen, Tan Fie Ping and Tan Chuan Thye (MSSB Vendors) to acquire the entire issued and paid-up share capital of MSSB comprising 1,620,000 MSSB Shares for a purchase consideration of RM4,007,366 which is to be satisfied wholly by the issuance of 40,043,298 new STB Shares at an issue price of approximately RM0.10 per STB Share, credited as fully paid-up.

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Subsequently, on 25 June 2004, a supplementary Sale of Shares Agreement was entered into between STB and the MSSB Vendors to vary the purchase consideration for the MSSB Acquisition from RM4,007,366 to RM7,119,859 which is to be satisfied wholly by the issuance of 71,198,498 new STB Shares at an issue price of approximately RM0.10 per STB Share, credited as fully paid-up.

### (i) Basis for the Purchase Consideration

The purchase consideration for the MSSB Acquisition of RM7,119,859 was arrived at on a "willing-buyer willing-seller" basis after taking into account of MSSB's audited NTA as at 30 April 2004 of RM7,119,859.

### (ii) Information on Vendors

The MSSB Vendors will respectively hold the following number of STB Shares:

Vendors	No. of MSSB Shares held		No. of new STB Shares issued as consideration	No. of new STB Shares held after Transfer*	
	Shares	%	Shares	Shares	% of enlarged share capital
SHSB	1,000	0.062	43,950	49,838,949	52.500
NVSB	79,380	4.900	3,488,726	3,488,726	3.675
Tan Yan Wah	77,031	4.755	3,385,489	3,385,489	3.566
Teo Kim Hock	77,031	4.755	3,385,489	3,385,489	3.566
Tan Bee Ngoh	77,031	4.755	3,385,489	3,385,489	3.566
Tan Fie Jen	461,846	28.509	20,297,988	3,372,824	3.553
Tan Fie Ping	692,719	42.760	30,444,785	2,547,448**	2.683
Tan Chuan Thye	153,962	9.504	6,766,582	2,124,086***	2.238
<b>Total</b>	<b>1,620,000</b>	<b>100.000</b>	<b>71,198,498</b>	<b>71,528,500</b>	<b>75.347</b>

Note:

\* Certain vendors of MSSB, namely Tan Fie Ping, Tan Fie Jen and Tan Chuan Thye, have provided their undertakings to transfer to SHSB in aggregate 49,794,999 STB Shares received as sale consideration for the MSSB Acquisition in exchange for 1,133 new SHSB Shares, during the prescribed period for the deposit of the STB Shares with Bursa Depository but prior to the listing of STB. The said prescribed period is expected to commence one (1) market day after both the issuance of this Prospectus and the advertisement by Bursa Securities. Information on the Transfer is as below:

Vendors	No. of STB Shares held after MSSB Acquisition	No. of new STB Shares to be transferred to SHSB	No. of STB Shares held after Transfer	No. of new SHSB Shares to be received as consideration for the Transfer
Tan Fie Ping	30,444,785**	27,897,339	2,547,448**	635
Tan Fie Jen	20,297,988	16,925,164	3,372,824	385
Tan Chuan Thye	6,766,582	4,972,496	2,124,086***	113
<b>Total</b>	<b>57,509,355</b>	<b>49,794,999</b>	<b>8,044,358</b>	<b>1,133</b>

\*\* Including two (2) subscriber shares transferred to Tan Fie Ping

## 6. INFORMATION ON STB GROUP

\*\*\* Assuming that Mr. Tan Chuan Thye will subscribe for the 330,000 STB Shares allotted to him under the Pink Form Share Allocation Scheme

Further information on SHSB is disclosed in Section 8.1.2 of this Prospectus.

The MSSB Acquisition was completed on 1 September 2004.

### 6.3.2 Public Issue

In conjunction with the Listing, the Company undertakes a Public Issue of 23,732,500 new STB Shares at Public Issue Price payable in full on application. Further information on the Public Issue is set out in Section 3.5 of this Prospectus.

### 6.3.3 Listing & Quotation

Upon completion of the Public Issue, STB will seek the listing of and quotation for its entire enlarged issued and paid-up share capital of STB of RM9,493,100 comprising 94,931,000 STB Shares on the MESDAQ Market.

## 6.4 Information on Subsidiary

### 6.4.1 Information on MSSB

#### (i) History and Business

MSSB was incorporated in Malaysia on 20 October 1992 as a private limited company, under the Act. Its principal activity is in the manufacturing and selling of paints, chemical solvents and industrial chemicals.

#### (ii) Share Capital

MSSB presently has an authorised share capital of RM2,000,000 comprising 2,000,000 ordinary shares of RM1.00 each and an issued and paid-up share capital of RM1,620,000 comprising 1,620,000 ordinary shares of RM1.00 each.

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

Date of allotment	No. of MSSB Shares allotted Shares	Par value RM	Consideration	Total issued and paid-up share capital RM
20.10.1992	2	1.00	Subscribers' shares	2
22.04.1993	99,998	1.00	Cash	100,000
16.06.1995	100,000	1.00	Cash	200,000
04.11.1995	102,000	1.00	Cash	302,000
10.06.1996	343,072	1.00	Cash	645,072
31.10.1997	204,928	1.00	Cash	850,000
20.02.1998	310,000	1.00	Cash	1,160,000
31.12.1998	460,000	1.00	Cash	1,620,000

#### (iii) Subsidiary and associated company

As at 13 September 2004 (being the latest practicable date prior to printing of this Prospectus), MSSB does not have any subsidiary nor associated company.

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## 6. INFORMATION ON STB GROUP

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### 6.5 Business Overview of STB Group

STB Group comprises STB and a wholly-owned subsidiary, namely MSSB, which is principally involved in the manufacturing of customised industrial coatings and diluents for the plastic/ polymer and wood based industries. Industrial coatings are mostly referring to paints and coatings, varnishes, lacquers and other finishes that are applied onto manufactured goods, either industrial or consumer goods. Plastic/ polymer coatings are usually applied to E & E appliances such as audio Hi-Fi, VCR, VCD/ DVD players, cameras, telephones, projectors, computers, office equipment, remote controls, etc.. Wood coatings, in turn, are used mostly for wooden furniture.

STB Group's major customers, either direct or through their OEMs, consist of multinational E & E manufacturers such as Funai Electric (M) Sdn Bhd, Panasonic AVC Networks Johor Malaysia Sdn Bhd, Panasonic AVC Networks Singapore Pte. Ltd., Sharp-Roxy Corporation (M) Sdn Bhd and Pioneer Electronics Asiacyber Pte. Ltd..

STB Group has started to penetrate into the automotive refinishing industry in view of the positive growth rate in automotive industry. Currently, most of the established suppliers of industrial coatings for the automotive refinishing industry are foreign manufacturers and there are very few local manufacturers which can compete with the quality of these imported automotive coatings. However, the Group believes that with the help of its R & D activities, it has the technology and ability to produce automotive coatings that match the quality of these imported coatings whilst maintaining its competitive price. STB Group is one of the very few locally owned industrial coatings manufacturers that is able to develop and formulate its own products. For just a short period of five (5) years, STB Group was able to manufacture a diverse range of industrial coatings for different applications which are catered for different end-users in various industries. The Group has recently appointed a distributor to market and distribute its products into the market.

The Group is also developing radiation-cured coatings system such as the UVC. Radiation-cured coatings system is favourable over other coatings systems mainly because it is fast curing and is more environmentally friendly due to its low VOC. At present, there is no local manufacturer producing such system for the plastic/ polymer coatings and this presents an opportunity for the STB Group to establish its initial presence in this sector.

The Group currently adopts the ISO 9001:2000 System. It has an R & D team of twelve (12) members (excluding its Managing Director) which includes one (1) Assistant General Manager, one (1) technical adviser, one (1) chemical engineer, three (3) chemists and assisted by six (6) lab technicians. The Group also has a strong sales and marketing team of eleven (11) staff which include four (4) marketing managers, one (1) assistant sales manager and six (6) sales service and technical personnel. As at 13 September 2004 (being the latest practicable date prior to the printing of this Prospectus), STB Group has a total workforce of eighty seven (87) employees. It has a maximum monthly production capacity of 180MT and 490MT running under one (1) production line at one (1) shift per day for each of its industrial coatings and industrial diluents respectively.

The Group's head office and its two (2) factories are located in Johor Bahru. Its new and larger factory is used for manufacturing activities whereas the smaller factory is currently used as a warehouse. STB Group has marketing offices located in Johor, Selangor and Kedah.

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## 6. INFORMATION ON STB GROUP

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### 6.5.1 Current Principal Products

STB Group, through MSSB, is primarily focused on the formulation, manufacturing and selling of specialised industrial paints and coatings for the plastic/ polymer, wood and automotive industries. As a complementary product, the Group is also involved in the manufacturing of industrial diluents. In addition, STB Group also produced metal coatings in small scale.

**(i) Plastic/ Polymers Coatings**

**(a) 1K Thermoplastic**

This is a 1K coating whereby film coating formation is by evaporation of the solvent content. These thermoplastic acrylic solvent-based coatings are suitable for plastic products made of PS and ABS. It is usually applied onto indoor plastic products such as TV, audio Hi-Fi, VCR and other E & E appliances which require low baking temperature and rapid drying treatment. This type of coatings is usually available in clear, solid-colour and metallic finishes. It has excellent fast drying properties, alcohol resistance, chemical resistance and yellowing resistance.

**(b) 2K Thermosetting**

2K thermosetting is a 2K coating whereby film coating formation is by an aid of a catalyst, PU solvent-based coatings that is suitable for ABS and other plastic substrates except for PS due to the unfavourable chemical reaction between the solvent and PS. It is available in clear, solid colour and metallic finishes and has better chemical and abrasion resistances, more durable and better quality than 1K thermoplastic coatings. This coating is at the high end of industrial coatings systems which are widely used in both interior and exterior applications of various E & E products and automotive refinishing.

**(c) Chrome Effect Coating on Plastics**

Chrome effect coating is used on consumer products with high bright reflects index compared to common aluminium effect which results in stainless steel look-alike effects. This chrome effect coating was recommended to the E & E manufacturers and is accepted and applied on the prominent parts of the products.

**(ii) Wood Coatings**

**(a) NC, AC and PU Wood Coatings**

NC, AC and PU wood coatings are suitable for indoor timber furniture and wood products such as dining suites, bedroom suites, office furniture, lounge suites, kitchen cabinets, storage units, picture frames, etc. The difference between NC, AC and PU is the different resin base that results in different characteristics in the coatings. NC is 1K system while AC and PU is 2K system. These coatings include those products usually referred to as sealers, clear topcoats, pigmented basecoats and pigmented topcoats. It has the characteristics of good yellowing resistance, great ease of application and fast drying. Each of these coatings is differentiated by their quality which includes the level of hardness of the coatings, thickness of the coating and their level of chemical resistance. NC is the cheapest and least durable while PU is the most expensive and durable among the three coatings. Each coating is suitable for different end-users depending on the type of base products that it is applied on and the budget of the end-users.



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**6. INFORMATION ON STB GROUP**

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**(b) UA – 1K Urethane Wood Coating**

This coating is urethane solvent-based and is suitable for garden furniture and floor parquet as it is oil-based and slow drying thus enabling the coating to penetrate well into the wood pores and withstand the harsh weather conditions that the base products are subject to. It is available in matt, semi-gloss and high-gloss finishes. It is also characterised by easy application and good abrasion resistance.

**(c) Crackle Paint on Wood**

This paint is specially made to apply over NC coloured basecoat and would crack to an appealing effect exposing the contrasting colour of the basecoat through the cracks. Application of this coating will result in an antique effect on wooden products. STB Group had launched the product on bedroom furniture which were displayed in the Furniture Fair in March 2003. This has boosted the sales for the crackle paint produced by STB as a consequence from the furniture orders received by the local furniture manufacturers from the Middle East.

**(d) Complementary Products for Wood Coatings**

In addition to the wood coatings above, the Group also manufactures complementary products for these coatings such as woodfillers, hardener and stains. Woodfillers can be either solvent or oil-based filler paste for timber furniture and wooden products. It is usually used to fill up gaps and to accentuate the natural grain pattern of the wood. STB Group's woodfillers is characterised by its fast drying and good grain-filling properties.

The Group also produced hardener which is required by the 2K PU coatings for the coatings to cure. Hardener act as a catalyst to harden the coating film via cross-linking reaction of chemicals.

Another complementary product that is commonly used by the end-users of wood coatings is stains. It is a solvent-based colourants for the colouring of wood as well as accentuating the natural grain pattern of the wood. It has both dye-based and pigmented stains and is characterised by its good light-fastness resistance and resistance to migration. This resistance slows down the fading effect due to weather exposure.

**(iii) Automotive Refinishing Coatings**

Automotive refinishing coating is used for re-coating on metal surfaces of motor vehicles and possesses qualities such as high-gloss, weather resistance and chemical resistance. Only a few of the local manufacturers are able to produce coatings at par with the imported automotive paints. Therefore, the Group plans to produce automotive paints that are able to replace the high quality imported paints at a lower price. The Group believes that there is significant potential in the automotive coatings market.

The Group has started penetrating into the local high-end refinishing market. The Group has recently appointed a distributor to market and distribute its products into the market. With continuous R & D activities, the Group believes that its automotive refinishing coatings will gain more recognition from more OEMs of automotive parts in the near future.

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### (iv) Industrial Diluents

Industrial diluents including thinner are used for diluting the viscosity of the industrial paints and coatings while solvent is the raw material used for the manufacturing of thinner and industrial paints and coatings. The Group, besides using the solvent itself, also sells it to third parties. Solvents used include alcohols, ketones, esters and ethers which are used to bring down the viscosity (dilution) or to control evaporation of the coatings.

### (v) Metal Coatings

The metal coating is made from 1K thermosetting-based stoving enamel designed for high quality finishing on most pre-treated metal surfaces such as phosphate and electro-deposition coated mild steel, stainless steel, aluminium, etc.. This pre-treated metal is usually used for the metal casing, components and parts of electronic and electrical, machinery and automotive items, grill, etc. that require coatings to prevent rusting while giving the metal an aesthetic design. The metal coating also has good chemical and solvent resistancy with hardness and durability properties which serve as a protective means to the substrate applied on. STB Group has both high gloss and matt metal coatings with a wide variety of colours and effects to suit the products cosmetic design.

The Group's current products received favourable acceptance and demand from the market and the Group believes that it will be able to expand further and to increase its market shares.

### 6.5.2 New and Proposed Products

To remain competitive, STB Group continues to formulate new variants of its existing products and to introduce new products to the market. The followings are some of the new variants that the Group intends to commercialise during the first year of its admission to the MESDAQ Market.

#### (i) UVC Coatings on Plastics

This product is cured by the UV Light. It has better pencil hardness, scratch resistance (high solidness) than the normal solvent based products. It is extremely fast curing and is more environmentally friendly due to its low VOC. This coating is suitable for plastic products such as mobile phones, audio-visual equipment, compact disc, notebooks, audio Hi-Fi, etc. This product is currently at the trial run stage and durability test process. STB Group believes that currently there are only foreign manufacturers who have the expertise to manufacture this product.

STB Group believes that it has a competitive advantage over the imported product because of its lower cost of raw materials and good post-sales services. By having locally trained technician and chemist, STB Group is able to readily customise its products and attend to its local customers' needs and requirements. As a local manufacturer, STB Group has a logistic advantage to attend to the needs of its customers.

STB Group intends to penetrate into both the local and export market by introducing this product to the existing local plastic coating customers through its existing networking with these customers.

#### (ii) Glass Protective Coatings

Glass is commonly used nowadays in our daily life as it is used either as a mirror, part of furniture or automobiles or simply as decorative household items, etc. With

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the different usage of glass, different coatings are required to suit its applications and appearances. The coatings on glasses also act as a protective layer to protect the glass from direct rays or contact with the surrounding which may cause deterioration of the functionality and appearance of the glass. For example, common mirror used in our daily life is actually glass with a layer of metals applied on one side of the glass through vacuum metallisation to create the reflective effect. To avoid the oxidation of this layer of metals due to moisture, glass protective coatings is required to avoid such oxidation.

In view of the potential usage of coatings on glass, STB Group has commenced performing R & D in producing glass protective coatings. The glass protective coatings are applied on glass through automated processes such as curtain coating, roller coating, etc.

### 6.5.3 Technology Used or to be Used

For the development of its polymer/ plastic coatings, STB Group is diversifying from the current solvent-borne coatings system to the water-borne coatings system as the water-borne coatings system uses less solvent that is harmful to the environment and thus is more environmentally friendly. The water-borne coatings system is divided into two (2) classes – water soluble and water insoluble. Water soluble consists of a single polymer molecule soluble on its own while water insoluble is emulsion type consisting of a number of polymer molecules solubilised by a surface covering of hydrophilic molecules.

STB Group believes that the future trend will move towards water-borne coatings system and therefore it will allocate sufficient resources in its R & D department to develop the water-borne coatings system.

The Group is also focusing on the development of radiation curable coatings system such as the UVC coatings for plastic/ polymer as mentioned previously in Section 6.5.2(i). For this UV-cured coatings, to cure it, the coatings has to undergo a UV radiation process whereby a shortwave range (315 - 420 nm) is used to energise the free-radical or cationic polymerisation of the photo-polymerisable functional groups in the binder. In order to do so, the Group's R & D team members must be knowledgeable in the underlying theory to select the precise prepolymer (oligomer or resin), reactive diluents (monomer) and photo-initiator. In addition, it would require the application of scientific principles relating to UV and experience to formulate this product type. Furthermore, the R & D team members have to understand the application methodologies and equipment for UVC coatings like roller coating, spray or silk screen, etc.. The curing pressure lamp, curing equipment and curing speed also have to be studied and taken into consideration by the formulator chemists.

The Group also uses the latest technology and analytical equipment to analyse and control the quality of its raw materials and formula of the raw materials in its production process. This is to ensure that the chemical contents of the raw materials used matches the original specimen sample which is of acceptable and proven quality by the Group and the products' end users.

Using its current technology in the form of formulas and know-how, the Group's R & D plans to enhance and further develop/ modify the formulas into:

- improve its current formula to enhance the touch and sight effects according to market trends and demand;
- develop new coating system and application methods to cater for future trend with enhanced specifications;
- develop coating system for other market segments in order to diversify its dependence on any one market/ industry segment; and

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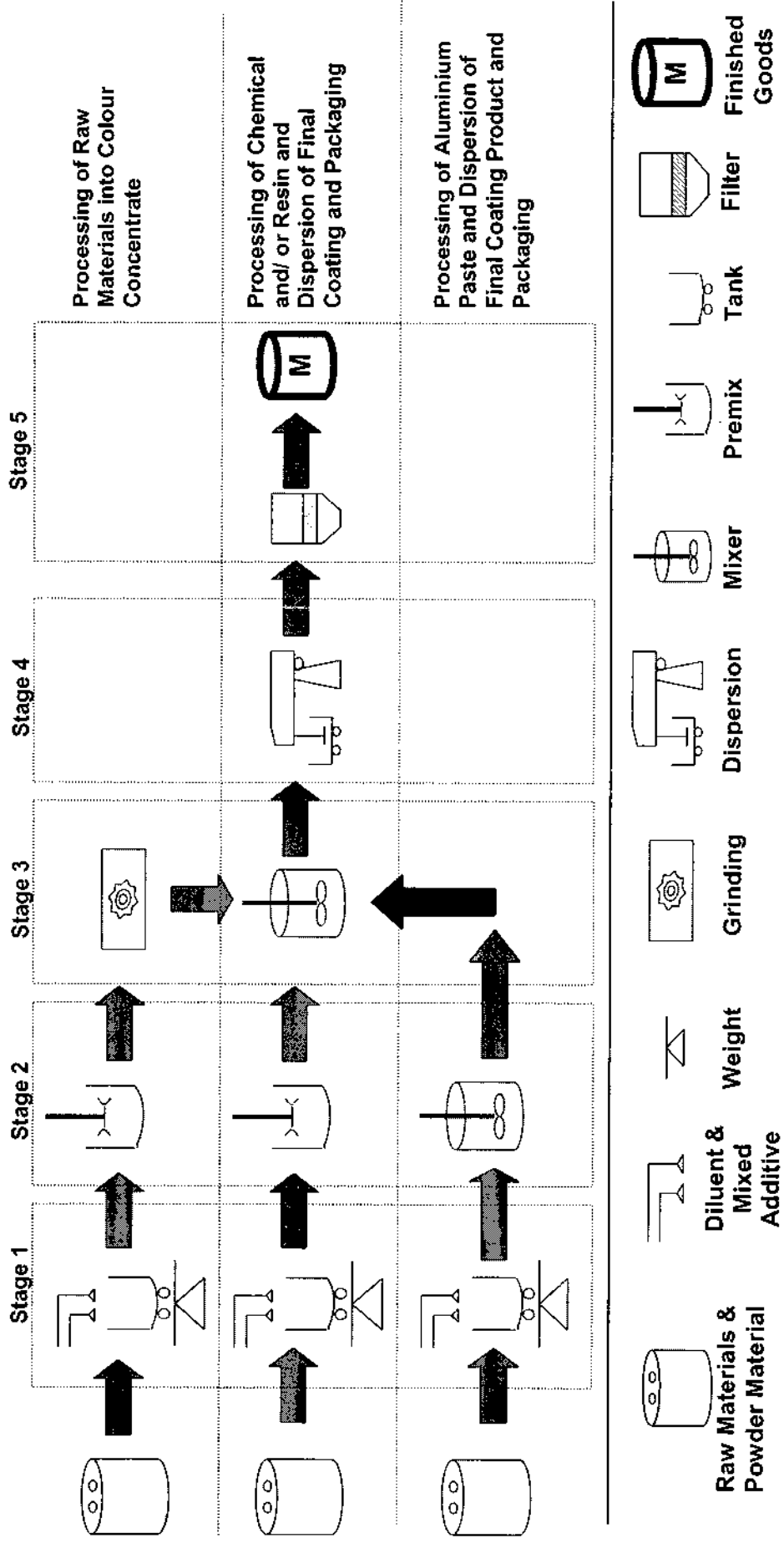
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- modify and enhance the chemical raw materials currently used in its product formula as well as to develop additives in order to enhance and improve both the quality and characteristics of its final coatings products and also at the same time protect the chemical formulation of the coatings.

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6.5.4 Production Process of Paints and Coatings



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STB Group seeks to embark on full end automation in the production process to produce better quality end products and cost effective. Currently, STB Group has automated its industrial diluent and solvent production processes. For each product to be produced, the computer will, according to a pre-programmed formulation, pump the raw materials required, which is based on weight, into the mixing tank where the raw materials are blended. Upon completion of the blending process, the finish goods are transferred automatically to the packing tank. Therefore, no human intervention is required at all. Quality control is performed via inspection by using a laboratory machine to ensure that all batches are within the limits of the quality specifications. Currently, it has one production line for thinner which is operating at about 51% capacity.

The Group plans to expand its production capacity and increase its efficiency by investing in specialised automotive coating production equipment in the near future. The following summarises the current production process:

### **Processing of Chemical and/or Resin and Dispersion of Final Coating and Packaging**

Stage 1 : Loading and pre-mix of powder extender (eg, talc powder, calcium carbonate, silica, etc.)/ additive/ solvent/ binder or polymer.

Stage 2 : Adding of colour concentrate for coloured lacquer products.

Stage 3 : Dispersion of pre-mix at a temperature not more than 40°C whereby the dispersion process provides the energy force to separate the molecules of the polymer.

During the dispersion process, production have to continuously perform adjustments due to the evaporation of solvents and other characteristic changes which occurs even if 100% accuracy of the original formula is used.

Stage 4 : Finished products will have to undergo various physical test like solid content, viscosity, fineness and application test and control within each individual customer's specifications.

Stage 5 : Finally, the up-to-quality finished products are ready for filter and packing.

### **Processing of Raw Materials into Colour Concentrate**

Stage 1 : Loading and pre-mix of binder/ diluents/ pigment / additives based on weight according to a preset formulation.

Stage 2 : Pre-mix sent for grinding to achieve specific homogeneous, fineness and colour strength in accordance to standardised specification. The grinding process also involved controlling of gap pressure, water pressure, bead size media and temperature control.

Stage 3 : Colour concentrates are added to the pre-mix raw material of the lacquer products, if required.

### **Processing of Aluminium Paste and Dispersion of Final Coating Product and Packaging**

Stage 1 : Loading and soaking of aluminium paste.

Stage 2 : Under low speed dispersion, aluminium paste is added to the clear lacquer together with colourants to produce paints and coatings with metallic effect. The

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dispersion process needs to be carefully handled as the particles of aluminium have the tendency to become oxidised and therefore loses its brightness.

The above are the three (3) main manufacturing processes performed to produce the finished paints and coating products. They are performed in different combinations depending on the type of product produced.

**(i) Clear Top Coatings**

This involves mainly the processing of chemical material and dispersion of final coatings without adding colour concentrate or aluminium paste.

**(ii) Pigmented/ Coloured Coatings**

This involves the processing of colour concentrate which is subsequently added during the processing of chemical material and dispersion of final coatings.

**(iii) Aluminium Coatings**

There are two (2) types of aluminium coatings. The first type involves all the three processes stated above which produces a coating with a metallic colour effect. The second type omits the colour concentrate process to produce the silver metallic effect (non-coloured).

### 6.5.5 Production Capacity and Capacity Utilisation

STB Group is currently operating at an average of 58% of its maximum production capacity, illustrated as below:

Product Type	Production output (MT/ month)	Production capacity (MT/ month)	Production utilisation (%)
Industrial Coatings	140	180	78
Industrial Diluents	250	490	51
Total/ Average	390	670	58

### 6.5.6 Quality Control Procedures/Quality Management Program

The Group's management policy is to strive to achieve customer satisfaction and requirements by providing quality products and timely delivery to customers. Its quality concept includes consistent and continued improvement for all its products. STB Group is currently implementing the quality control procedure in accordance to the ISO 9001:2000 System. The quality control procedures are as follows:

- (i) To inspect and test all incoming raw materials to ensure conformity to the required quality specifications;
- (ii) To ensure in-process activities and final inspection of products meets the standard specifications by performing 100% Physical Test Checking on samples of in-process products from the production department which involves testing on the strength, glossiness, fineness, viscosity, etc of the products; and

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- (iii) To perform reliability test on finished products to ensure products are up-to quality. These tests involve hardness, tape, adhesion, nail scratch, rubbing, alcohol resistance, water resistance, thermal shock, relative humidity, cosmetic migration, artificial sweat, detergent, charge, high and low temperature.

### 6.5.7 Sources and Availability of Raw Materials

The main raw materials used for production of STB products are acrylic resins, alkyd resins, polyester resins, epoxy resins, solvents, additives and extender (talc powder, aluminium paste, etc.). Each resin has its own characteristic and thus provides the different characteristic of each type of coatings. STB Group obtains most of its resins from a wide range of local suppliers. However, if the required resins are not available locally, the Group will source it from overseas suppliers. For the sixteen (16) months period ended 30 April 2004, the top ten (10) major suppliers for the Group are as follows:

Suppliers	Contribution to STB Group's total purchase (%)	Length of relationship Years
Samchem Sdn Bhd	17.6	4
C.L.P. Industries Sdn Bhd	14.1	12
Maha Chemicals Sdn Bhd	12.8	4
P.T.Diachem Resins Indonesia	9.1	2
Thiam Joo (M) Sdn Bhd	7.7	12
Perusahaan Kimia Gemilang Sdn Bhd	5.4	4
Chemsuccess Resources Sdn Bhd	4.1	6
Globell Chemical Co. Pte. Ltd.	3.6	2
DIC International Pte Ltd	3.2	2
TN Chemie Sdn Bhd	2.8	4
	80.4	

STB Group produces its own diluents and thinner, which form 10% to 20% of the Group's raw materials in terms of MT. As such, the Group does not face the threat of shortage for these raw materials. Its production capacity for diluents and thinner is large enough for the Group to even sell to third parties besides for its own usage.

### 6.5.8 R & D

As at 13 September 2004 (being the latest practicable date prior to the printing of this Prospectus), there are twelve (12) members in the Group's R & D team, excluding the Group's Managing Director, Mr Tan Fie Ping. STB Group's R & D primary objectives are:

- to constantly review products' performance to improve the quality of its existing products;
- to develop new innovative products to meet new trends and better performances;
- to be more cost efficient;
- to have the ability to customise its products to certain niche market and specific customer demands; and
- to develop and focus on water-borne and UVC coatings system.



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For the last five (5) financial years ended 31 December 2003, STB Group has spent the following amounts on its R & D:

	Financial year ended 31 December				
	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000
Total R & D expenditure	168	191	351	565	560
Proforma consolidated turnover	14,777	18,997	20,837	25,372	26,685
% of R & D expenditure over total consolidated turnover	1	1	2	2	2

### (i) R & D Facilities

Some of the Group's main R & D facilities are listed below:

Facilities	Usage
1 Fourier Transform Infrared	Analysis of compounds found within the subject chemical
2 Microscope (1000X)	Close examination and detection of coating defects
3 Solar Box	Accelerated weathering test on coatings
4 Humidity Chambers	Aging test or durability test of coatings under simulating temperature and specific humidity condition
5 Drying Time Tester	Determination of the drying time of a coating film
6 Viscometer	Measurement of the viscosity of coatings
7 High Speed Dissolve	Scale up laboratory dispersion machine equip with additional functionality such as data collection and reading metres on products temperature status and revolution speed of dispersion shaft

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### (ii) Present Status & Achievements

Besides the new products as stipulated in section 6.5.2, STB Group is also in the progress of developing new products in the next five (5) years. The following provides an indication of the development stage of these new products and their present status of completion:

No.	Products	Development Phase	Present Status of Completion (%)
1	Water-borne coatings on polymer/ plastic	<ul style="list-style-type: none"> <li>Sourcing of raw materials</li> <li>Setting mechanical properties and market study</li> </ul>	5
2	Advance plastic specialty coating for interior car parts	<ul style="list-style-type: none"> <li>Realibility test stage</li> </ul>	90
3	Coatings for motorcycles	<ul style="list-style-type: none"> <li>Testing on raw parts</li> </ul>	60
4	Advanced industrial coatings for plastic and PCB	<ul style="list-style-type: none"> <li>Installation of UVC equipment</li> </ul>	15

### (iii) Future R & D Plans

The Group intends to invest RM1.0 million for its R & D activities in order to achieve its objectives over the next two (2) years. It will also hire experienced and qualified chemists and scientists from both local and foreign countries in order to compliment its existing in-house talents and gear towards its new product development plans. STB will also be acquiring new R & D equipment and upgrading its existing R & D facilities to expedite its development progress.

### (iv) R & D Quality Standards

STB Group's R & D procedures and methodologies are certified in accordance to ISO 9001:2000 System.

### 6.5.9 Market Segment and Market Share

As indicated in the Independent Market Research Report, the Group has 22.5% of the total market share (in terms of revenue) for the paints and coatings used in the plastic/ polymer industries for the year 2003. Its major competitors in the plastic/polymer coatings industry, both local and foreign, are Durachem Sdn Bhd and Mushasi Paints Corporation, accounting for 33.4% and 3.8% respectively of the market's total revenue. However, since 1999, smaller manufacturers, such as the STB Group, were able to gain the market share previously held by large manufacturers as they are able to provide similar quality products at competitive prices.

The Group has 1% of the market share for paints and coatings for the furniture industry. It does not focus extensively in the paints and coatings for the furniture industry mainly because the furniture industry itself is experiencing difficulty in growth. The major market players in the furniture coatings industry is Akzo Nobel Coatings Sdn Bhd, Valspar Industries (Lilly Industries Sdn Bhd), Syncoates (M) Sdn Bhd, Deh Fu Coatings (M) Sdn Bhd and Mirotone (M) Sdn Bhd, which collectively holds 50.1% of the total market revenue in 2003. STB Group

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and other market players are currently venturing into overseas markets especially China, Vietnam, Indonesia and Thailand so as not to rely too much on local sales only.

*(Source: Independent Market Research Report)*

STB Group's sales primarily comes from sales to the local market and LMW, accounting for 96% of total revenue while its exports only accounts for 4% of total sales generated in the financial period ended 30 April 2004. These export sales are mainly to Myanmar and Indonesia. However, with the implementation of AFTA agreement in 2003, the Group intends to increase its export to other ASEAN countries. This coupled with the removal of barriers of trade between ASEAN countries, enables STB Group to compete competitively with other industrial coating manufacturers. The Group intends to increase its exports to approximately 7% of its total sales within the next five (5) years.

### 6.5.10 Mode of Marketing and Distribution

STB Group mainly sells directly to its customers and also provides after-sales services support to its customers. STB believes that this will not only enhance its relationship but also enables STB Group to understand its customers changing needs. Its marketing program also includes meetings conducted by the Managing Director with large potential clients especially multinational OEM such as Funai Electric (M) Sdn Bhd, Panasonic AVC Networks Johor Malaysia Sdn Bhd, etc. It also has two (2) branch marketing offices, one each in Selangor and Kedah, besides its head office in Johor. This enables the Group to be in close proximity with its customers and provide the necessary technical support promptly.

Most companies market their products in the market using a series of brand names. As for STB Group, its existing brand name, "Quality" in Chinese and English characters, has been approved for its usage as registered trademark by the IPD of the Ministry of Trade and Consumer Affairs. It has also submitted its application for eleven (11) other brand names as trademarks so as to differentiate its different range of products, from its competitors.

In addition, the Group has nominated distributors to market its products. At the moment, the Group has only two (2) distributors, namely Euphymax Sdn Bhd and Wall Panel Trading, and is envisaged to increase the number of distributors in the next five (5) years.

STB Group is currently the appointed supplier of industrial coatings for several multinational companies and as such, its name will also be recognised by these multinational companies which are also operating in other countries and therefore act as a mode of marketing for its products.

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## 6. INFORMATION ON STB GROUP

### 6.6 Major Customers

For the sixteen (16) months period ended 30 April 2004, Funai Electric (M) Sdn Bhd , a loyal customer for the past ten(10) years, contributed approximately 12% of the Group's total revenue. The top ten (10) major customers of STB Group for the sixteen (16) months financial period ended 30 April 2004 are as follows:

Customers	Contribution to STB Group's turnover (%)	Length of relationship Years
Funai Electric (M) Sdn Bhd	12.0	10
Supportive Technology Sdn Bhd	9.6	5
Luster Industries Sdn Bhd	9.1	10
Tylon Manufacturing (M) Sdn Bhd	6.3	9
Shinplas Injection Sdn Bhd	4.9	3
Exzone Plastic Manufacturers Sdn Bhd	3.9	8
Industri Kotakayu Sdn Bhd	3.3	8
Ge-shen Plastic (M) Sdn Bhd	3.3	4
Itami Plastic Corporation (M) Sdn Bhd	2.4	10
Ata Industrial Sdn Bhd	2.4	4
	<u>57.2</u>	

Hence, the Directors of STB Group are of the opinion that the downside risk of over-dependence on any one particular customer is minimal. However, STB Group will continue to diversify its product range and penetrate the overseas markets so as to increase its customers' base.

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## 6. INFORMATION ON STB GROUP

### 6.7 Employees

As at 13 September 2004 (being the latest practicable date prior to printing of this Prospectus), the Group employed a total of eighty seven (87) employees. STB Group has not encountered any major problem in its staff turnover and enjoys a cordial relationship with its employees. None of the employees of STB Group are members of any trade union. Further, there has been no labour or industrial dispute taken against the Company in the past.

Generally, the Group's employees can be categorised as follows:

Category	Number of Employees	MSSB Average length of services (years)
Managerial & Professionals	15*	6
Technical & Supervisory	17	3
Sales, Clerical & Other Workers	17	4
General Workers	17	2
Factory Workers		
• Skilled	16	4
• Unskilled	5	2
<b>Total</b>	<b>87</b>	

Note:

- \* The Group has only one (1) foreign employee, namely Mr Marchetto Fabio, who is the technical advisor for the Group's R & D department for approximately two (2) years. The profile of Mr Marchetto Fabio is outlined in Section 8.4.2 of this Prospectus.

### 6.8 Training and Development Programme

In recognition that the employees of the Group is the backbone to the success of the Company, STB Group constantly organises in-house training to update its employees on the latest development in the industry and to upgrade their technical know-how. In addition, the Group sends its employees to various external seminars to share knowledge and experience from a number of experts. To conform to the ISO requirements, its Quality Management System members had attended the ISO 9001:2000 Awareness seminar in 2002.

STB Group conducts orientation and On-Job-Training programmes for its new recruits. Basically, new recruits will be evaluated on a monthly basis and will be required to undergo certain tests in order to assess their understanding of their respective job functions. STB Group strongly believes in continuous staff development and therefore plans various programmes such as:

- Effective purchasing and negotiation skills;
- Dangerous goods regulations;
- Team building;
- Cutting-edge collection techniques for improved cashflows;
- Managing customers for profit not for sales; and
- Practical problem-solving skills

for their staff to up-grade their knowledge and capabilities.

## 6. INFORMATION ON STB GROUP

### 6.9 Key Achievements / Milestones

From a modest start as a trading company in paints and coatings and other diluents, the Group started its own manufacturing of wood coatings in mid 1998 and subsequently plastics/ polymers coatings in 1999 which provided a significant boost to the Group's profitability. In 1999, MSSB was awarded the ISO 9002:1994 Quality Certificate and subsequently ISO 9001:2000 Quality Certificate in 2003. It is one (1) of the only five (5) coating companies in Malaysia appointed as the recognised coating suppliers for Funai Electric (M) Sdn Bhd, Panasonic AVC Networks Johor Malaysia Sdn Bhd, Panasonic AVC Networks Singapore Pte. Ltd., Sharp-Roxy Corporation (M) Sdn Bhd and Pioneer Electronics Asiacyber Pte. Ltd..

The Group also obtained the certificate of Green Partner from Global Procurement Head Office, Sony Corporation and ISO 14001:1996 by the Independent European Certification (M) Sdn Bhd for its environment management system which has met the respective requirements on 1 July 2003 and 7 September 2004 respectively. It is also the only manufacturer in Malaysia with absolutely no reliance on foreign technology or any tie-ups with foreign companies and all formulas are developed in-house.

### 6.10 Interruptions to Operations

There has been no major interruption to the STB Group's business operations in the past twelve (12) months.

### 6.11 Operating Locations

#### (i) Head Office

No. 28 Jalan Canggih 1, Taman Perindustrian Cemerlang, 81800 Ulu Tiram, Johor Darul Takzim.

#### (ii) Factories / Plants

	Address	Purpose
(a)	No. 28, Jalan Canggih 1, Taman Perindustrian Cemerlang, 81800 Ulu Tiram, Johor Darul Takzim	Manufacturing of paints and coatings, and other industrial diluents.
(b)	No.1 Jalan Canggih 5, Taman Perindustrian Cemerlang, 81800 Ulu Tiram, Johor Darul Takzim	Currently used as warehouse.

#### (iii) Marketing Offices

- (a) No. 28, Jalan Canggih 1, Taman Perindustrian Cemerlang, 81800 Ulu Tiram, Johor Darul Takzim;
- (b) No. 1, Jalan Anggerik Mokara 31/59, Kota Kemuning Seksyen 31, 40460 Shah Alam, Selangor Darul Ehsan; and
- (c) No. 127, Jalan Kemuning 4, Sungai Pasir Industrial Park, 08000 Sungai Petani, Kedah Darul Makmur.

## 6. INFORMATION ON STB GROUP

### 6.12 Prospects and Future Plans of STB Group

STB Group recognised the threats that the Group is facing with the emergence of China as the manufacturing power whereby many MNCs have or are shifting their manufacturing activities from Malaysia to China. This indirectly affected the demand for paints and coatings that STB Group's produced which are used by the E & E, wood and automobile industries. With this in mind, the Group believes that it will have to expand its export sales. The Group's strategy is to continue with its existing business that has been the backbone of its success. In addition, the management believes that in order to grow exponentially and be competitive, the Group will need to expand and diversify its product range to more innovative products and functions. It aims at not only capturing larger markets domestically but also expands its export sales to Thailand (plastic and wood coating), Vietnam (wood coating) and Philippines (wood coating) in the ASEAN region and to increase its market shares in its existing export markets in Indonesia, Singapore and Myanmar. For the Group's new targeted export markets, STB Group's initial intention is to test the market's response and penetrate these markets with the aid of overseas marketing agents in the respective countries. Once STB Group has established its presence in these overseas markets, it will move forward to set up its own branch offices which enable it to sell at a better margin than through marketing agents.

STB Group believes that the Group has a competitive advantage over its competitors due to its competitive pricing, better product quality, up-to-date technology and continuous after-sales services provided to its customers. In order to be assured of its success in implementing its future plans and strategies and to increase its future profitability, STB Group intends to raise funds from the public through its listing exercise on the MESDAQ Market which is a lower cost of funding as compared to its existing banking facilities. As a listed company, STB will also be able to command a certain premium on its products.

The Malaysian paints and coatings industry is expected to have a favourable outlook and prospects in view of the positive outlook of several related sectors such as the E & E, furniture and automotive industries. The plastics coating, wood coating and automotive coating are estimated to have a CAGRs of 6.1%, 3.0% and 2.8% respectively. In view of the positive outlook as stipulated above, the Group plans to adopt the following strategies:

- (i) Expanding the range of products;
- (ii) Increasing R & D activities;
- (iii) Strengthening networking capability;
- (iv) Expanding to foreign markets;
- (v) Establishing its own brand name(s); and
- (vi) Strengthening workforce and maintaining quality staff.

#### 6.12.1 Expanding the Range of Products

The Group intends to increase its product range to both existing and potential clients. The proposed products will have improved aesthetic and other properties of existing coating systems, high performance coating system for existing and other types of industrial applications. The new enhanced products would also be based on changes in the leading edge technologies, global market conditions, government incentives and market demands for certain products. The Group's objectives are to provide more selections to its customers and to customise on products that suit its customers' needs and requirements.

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## 6. INFORMATION ON STB GROUP

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### 6.12.2 Increasing R & D Activities

In an industry characterised by rapid new applications, the “one size fits all” or “off the shelf” offerings cannot keep up with the specialty demands that are driving the market place. To achieve this, there is a need to have the spirit of innovation and experimentation, which in turn, demand a strong and innovative R & D team. Innovations will give rise to better process technologies, product technologies and improved business process performances, as well as cost leaderships. The Group is planning to allocate approximately RM1.0 million over the next two (2) years for its R & D activities.

### 6.12.3 Strengthening Networking Capability

The Group intends to strengthen its current network with both its suppliers and customers to ensure better relationships and therefore better assurance of availability of raw materials for productions and demand for its products. To maintain such relationship, the Group will ensure that prompt payments to its suppliers, attractive credit terms to its customers and to provide good after-sales service support. STB plans to work closely with major customers to develop new coating effects and characteristics that meet their requirements. The Group will also attend international fair and trade shows such as the Asia-Pacific Coatings Show and Conference, Asia Coatings Forum, International Furniture Exhibitions and MATRADE seminars to build its business contacts, gain better recognition and to search for more business opportunities.

Currently, STB also has a website, [www.sersoltech.com](http://www.sersoltech.com), which provides background information on STB Group as well as information on the products that the Group has to offer. This provides an inexpensive medium for the Group to introduce its products to other potential customers both in local and overseas markets.

### 6.12.4 Expanding to Foreign Markets

In order to diversify from the relatively small domestic market, the Group had penetrated into overseas markets such as Myanmar and Indonesia; and further plan to penetrate into other overseas markets such as Thailand, Vietnam and Philippines. For overseas market, the Group appoints reputable and reliable marketing agents who have good local knowledge in their respective countries. Later, the Group plans to set up its own offices to support its agents and distributors as well as to penetrate into new large customers once it has gained recognition and acceptance. This will enable the Group to provide better service to its agents, distributors as well as key direct clients and hence increase sales in those markets. With better service provided, the Group is able to command better profit margin for its products.

### 6.12.5 Establishing its Own Brand Name(s)

In order to successfully penetrate the local and foreign markets further, the Group's strategy is to establish its brand name(s) in the industry to enable the end-users to differentiate among the many competing companies in the market. If successful, the Group can leverage on this attribute, including extending it to cover other future products in the pipeline. It also provides an intangible advantage over many other competing products in the market, such as raising the barrier to entry to potential new entrants into the market, increase the product differentiation, reducing marketing costs and being able to command a certain degree of price premium and brand loyalty among customers in the market.

### 6.12.6 Strengthening Workforce and Maintaining Quality Staff

The Group acknowledges that in order to be successful, the Group requires good leadership management and skilled staff. In view of this, the Group will continue to provide attractive remuneration package to its staff in order to encourage loyalty and motivate its staff to contribute to the Group. The Group also plans to reward its existing employees by offering



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## **6. INFORMATION ON STB GROUP**

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Employee Share Option Scheme so that the employees will have a sense of ownership in the Group. Both job rotation and job enrichment among the current employees are also carried out from time to time. In conjunction with its planned expansion in its operational activities, the Group intends to increase its current workforce of eighty seven (87) employees to one hundred and five (105) employees in the next five (5) years. This includes technical personnel in the technical fields such as engineering and chemistry. Fresh graduates would also be recruited under a management training scheme, whereby they will undergo on-the-job training after which they will be placed in accordance with their aptitude and interest.

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