

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE

This Prospectus is dated 30 January 2004. A copy of this Prospectus has been registered with the SC. A copy of this Prospectus, together with the form of application, has also been lodged with the ROC and neither SC nor ROC takes any responsibility for its contents.

Approvals have been obtained from the SC in respect of the Public Issue and Offer for Sale on 29 December 2003. The approval from the SC shall not be taken to indicate that the SC recommends the initial public offering and /or the flotation of PKHB on the Main Board of the MSEB. Prospective investors should rely on their own evaluation to assess the merits and risks of any investments in the Company.

**Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the MSEB has prescribed PKHB as a CDS counter. In consequence thereof, the shares issued/offered and the ICULS offered through this Prospectus will be deposited directly with MCD and any dealings in these PKHB shares and ICULS will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.**

An application will be made to the MSEB within three (3) market days from the date of this Prospectus for admission to the Official List of the Main Board of the MSEB and for permission to deal in and for the listing of and quotation for the entire issued and paid-up ordinary shares of RM1.00 each in PKHB (including the Public Issue Shares and Offer for Sale Shares and the new ordinary shares of RM1.00 each in PKHB arising from the conversion of the ICULS) and the ICULS, which are the subject of this Prospectus. These ordinary shares and ICULS will be admitted to the Official List of Main Board of the MSEB and official quotation will commence after the receipt of confirmation from MCD that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been dispatched to all successful applicants.

Acceptance of the applications will be conditional upon permission being granted by the MSEB to deal in and for the quotation of the entire issued and fully paid-up ordinary shares and ICULS of PKHB on the Main Board of the MSEB. Accordingly, monies paid in respect of any application accepted will be returned without interest if the said permission for listing is not granted within six (6) weeks from the date of issue of this Prospectus or such longer period as may be specified by the SC, provided that the Company is notified by or on behalf of the MSEB within the aforesaid timeframe.

**Only an applicant who has a CDS account can make an application by way of an application form. The applicant shall furnish his/her CDS account number in the space provided in the Application Form and he/she shall be deemed to have authorised MCD to disclose information pertaining to the CDS account to MIDFCCS or the Company. Where an applicant does not presently have a CDS account, he/she should open a CDS account at an ADA prior to making an application for the Public Issue Shares and Offer for Sale Shares/ICULS. If a successful applicant fails to state his/her CDS account number, MIDFCCS under the instruction of the Company will reject the application. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has CDS account can make an Electronic Share Application.**

Pursuant to the Policies and Guidelines on Issue/Offer of Securities issued by the SC, at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each at the point of listing. Pursuant to the Listing Requirements of MSEB, the listing of the ICULS is conditional upon the ICULS having at least one hundred (100) holders holding not less than one (1) board lot of the ICULS each. **In the event that the above requirement is not met pursuant to the Public Issue and Offer for Sale, the Company may not be allowed to proceed with its listing on the Main Board of the MSEB. In the event thereof, monies paid in respect of all Applications will be returned if the said permission is not granted.**

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and Offer for Sale and if given or made, such information or representation must not be relied upon as having been authorised by PKHB. Neither the delivery of this Prospectus nor any offer made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the PKHB Group since the date hereof.

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)

The distribution of this Prospectus is subject to Malaysian law and the Company takes no responsibility for the distribution of this Prospectus outside Malaysia. Persons into whose possession of this Prospectus may come are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an offer to sell or invitation of an offer to buy any Public Issue Shares, Offer for Sale Shares and Offer for Sale ICULS in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

The SC and MSEB assume no responsibility for the correctness of any of the statements made or opinion or reports expressed in this Prospectus. Admission to the Official List of the Main Board of the MSEB is not to be taken as an indication of the merits of the Company, its ordinary shares or its ICULS.

**If you are in any doubt of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser.**

#### 3.1 Opening and Closing of the Application Lists

The application for the Public Issue and Offer for Sale will open at 10.00 a.m. on 30 January 2004 and will remain open until 5.00 p.m. on 18 February 2004 or for such further period or periods as the Directors of PKHB and/or the Offeror together with the Managing Underwriter in their absolute discretion may decide. Should the closing date of the application date be extended, the dates for balloting and allotment of the Public Issue Shares, Offer for Sale Shares and Offer for Sale ICULS, and the listing of and quotation for the entire issued and paid-up share capital and ICULS of PKHB on the Main Board of the MSEB would be extended accordingly. Any change to the closing date of the application will be published in a widely circulated daily Bahasa Malaysia newspaper and English newspaper within Malaysia.

#### 3.2 Date of Special Events

Opening of the Public Issue/Offer for Sale	:	30 January 2004
Closing of the Public Issue/Offer for Sale	:	18 February 2004
Tentative Balloting Date	:	20 February 2004
Tentative Allotment Date	:	5 March 2004
Tentative Listing Date	:	9 March 2004

#### 3.3 Purposes Of The Public Issue and Offer For Sale

The purposes of the Public Issue and Offer for Sale are as follows:-

- (i) To provide additional funds to meet the present and future working requirements of the PKHB Group;
- (ii) To grant PKHB with access to the capital market to raise funds to finance the future growth and expansion of the Group;
- (iii) The listing of PKHB shares on the Main Board of the MSEB is expected to further enhance the Group's corporate reputation and assist the Group in expanding its customer base in Malaysia;
- (iv) To provide an opportunity for the Malaysian Public, institutional investors, Directors, employees, customers and suppliers of the PKHB Group to participate in the continuing growth of the Group; and
- (v) To enable PKHB to meet the National Development Policy requirement on 30% bumiputera shareholders spread in PKHB upon listing.

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)

#### 3.4 Number And Class Of Securities To Be Issued/Offered

	<b>RM</b>
<b>Authorised :</b>	
Existing: 500,000,000 ordinary shares of RM1.00 each	500,000,000
<b>Issued and fully paid-up:</b>	
Existing 44,419,797 ordinary shares of RM1.00 each	44,419,797
<b>To be issued pursuant to the Public Issue:</b>	
19,580,203 new ordinary shares of RM1.00 each	19,580,203
<b>Enlarged share capital upon listing</b>	<b>64,000,000</b>
<b>To be issued pursuant to the full conversion of ICULS:</b>	
53,243,359 ordinary shares of RM1.00 each	53,243,359
<b>Total enlarged share capital</b>	<b>117,243,359</b>
<b>To be offered pursuant to the Offer for Sale:</b>	
3,764,200 ordinary shares of RM1.00 each	3,764,200
12,778,400 nominal value of ICULS of RM1.00 each	12,778,400

There is only one class of shares in the Company, namely, ordinary shares of RM1.00 each, all of which rank pari passu with one another. The Public Issue Shares and Offer for Sale Shares will rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of ordinary shares in the Company shall, in proportion to the amount paid-up on the ordinary shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends, distributions and the whole of any surplus in the event of liquidation of the Company in accordance with its Articles of Association.

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held.

The new ordinary shares of RM1.00 each in PKHB arising from the conversion of the ICULS will, upon allotment and issue, rank pari passu in all respect with the existing ordinary shares of PKHB except that they shall not be entitled to any dividends, rights, allotments or other distributions declares prior to the date of allotment of the new ordinary shares.

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)

The Trust Deed has been executed and dated 13 January 2004. The following are terms from the Trust Deed which provides for the rights of the ICULS holders:-

#### (1) Conversion Right

PKHB shall upon receipt of the notice of conversion in the prescribed form during the tenure issue new PKHB Shares at the conversion price for the nominal value of the ICULS stated in the notice of conversion. For the avoidance of doubt, a holder may exercise the conversion right only upon listing of the ICULS and from time to time within the tenure in respect of all or part of the ICULS held by him.

All remaining ICULS outstanding on the maturity date shall on maturity date be automatically converted by PKHB by way of issuance of new Shares at the conversion price. In this respect, notice of the maturity date shall be given by PKHB to each holder at least thirty (30) days prior to the maturity date and simultaneously by way of advertisement published in national daily newspapers in the main languages circulating generally throughout Malaysia addressed to all holders.

#### (2) Notice of Conversion

(a) To exercise the conversion right, the holder must give to PKHB the notice of conversion during the tenure. The notice of conversion in order to be valid and effective, must:

- (i) be in writing and be signed by the holder; and
- (ii) be delivered to and received by PKHB at its registered office TOGETHER WITH such other documents or evidence (if any) as the Directors may require to prove the title of the person exercising the conversion right.

A notice of conversion which does not comply with the foregoing provisions may at the discretion of PKHB be deemed void and not given.

(b) A valid notice of conversion once delivered may not be withdrawn without the consent in writing of PKHB.

#### (3) Allotment of Shares

(a) If the duly completed notice of conversion together with such other documents or evidence (if any) as the Directors may require to prove the title of the person exercising the conversion right in respect thereof, has been duly lodged with PKHB then, PKHB will within ten (10) market days from the lodging of such aforesaid notice of conversion cancel such ICULS and allot to the relevant holder the appropriate number of new Shares and such allotment shall be in satisfaction of the nominal value of the ICULS so converted PROVIDED ALWAYS that if the holders exercising the conversion right as aforesaid shall have lodged with the notice of conversion a form of nomination and form of acceptance duly completed in such form as PKHB may from time to time prescribe and pay stamp duty (if any) payable on such forms, PKHB shall issue and allot such aforesaid new Shares to the person or persons named in the form of nomination instead of issuing and allotting them to the aforesaid holders.

(b) PKHB shall within ten (10) market days from the date of every allotment of new Shares as aforesaid issue and deposit the new Shares so allotted into the securities account of the persons entitled thereto or as it/they may direct in accordance with the rules PROVIDED THAT details of such account are provided to PKHB.

**3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)****(4) Ranking of Shares**

Shares issued and allotted upon conversion of the ICULS shall rank *pari passu* in all respects with Shares in issue at the time of conversion except that they shall not be entitled to any dividends, rights, allotments or other distributions, the entitlement date of which precedes the issue date of the new Shares.

**(5) Joinder**

Each holder shall be entitled severally to enforce the covenants, obligations and conditions against PKHB in so far as each holder's ICULS are concerned, without need to join the initial allottee from whom such ICULS were acquired or other holders or the trustee in the proceedings for such enforcement PROVIDED ALWAYS that no holder shall be entitled to proceed as aforesaid unless the trustee, having become bound to proceed fails or neglects to do so within thirty (30) days of the special resolution as provided in the Trust Deed.

**(6) Attendance of Meeting**

The trustee or PKHB may respectively and the trustee shall at the request in writing of the holders holding not less than one-tenth (1/10<sup>th</sup>) of the ICULS for the time being outstanding and upon receiving such indemnity as the trustee may require against the cost of convening and holding the meeting convene a meeting of the holders generally. Such meeting shall be held at such place as the trustee shall determine or approve.

**3.5 Details Of The Public Issue and Offer For Sale**

In conjunction with the listing of PKHB, the Company will undertake the Public Issue of 19,580,203 new ordinary shares of RM1.00 each at an Issue Price of RM1.60 per ordinary share. The Public Issue Shares will be allocated in the following manner:-

**(i) Bumiputera Investors Approved by MITI**

9,980,203 Public Issue Shares will be offered to Bumiputera investors approved by MITI.

**(ii) Eligible Directors, Employees, Customers, Suppliers**

3,200,000 Public Issue Shares will be reserved for eligible Directors, employees, customers and suppliers of PKHB Group.

The number of ordinary shares to be allocated to the Directors of PKHB are as follows:-

Name	Designation	Pink Form Allocation (No. of Ordinary Shares of RM1.00 Each in PKHB)
Dato' Choon Yee Seiong	Executive Chairman/ Group Managing Director	40,000
Cheong Teck Chong	Executive Director	40,000
Choon Nee Siew	Executive Director	40,000
Mohd. Annuar Choon bin Abdullah	Executive Director	40,000
Chang Kwong Him	Executive Director	40,000
Siow Der Ming	Executive Director	40,000
Fazrin Azwar Bin Md. Nor	Non-Executive Director	15,000
Dr. Choong Tuck Yew	Independent Non- Executive Director	15,000
Liew Yuke Foong	Independent Non- Executive Director	15,000

**3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)**

<b>Name</b>	<b>Designation</b>	<b>Pink Form Allocation (No. of Ordinary Shares of RM1.00 Each in PKHB)</b>
Dr. Mohd Amir Sharifuddin B. Hashim	Independent Non- Executive Director	15,000

The criteria of allocation to the eligible employees who are confirmed employees of the Group as at 19 January 2004, as approved by the Directors of PKHB, is based on the job grade and years of service whilst for customers and suppliers of the Group, the criteria is based on the length of relationship and/or the value of the transactions as at 19 January 2004. Based on the above criteria, the total number of employees, customers, suppliers eligible for the allocation are 81.1%, 11.2% and 7.7% respectively.

In the event of undersubscription, they will there be made available for application by Malaysian citizens, societies, co-operatives and institutions.

**(iii) Private Placement**

3,400,000 Public Issue Shares will be reserved for private placement to identified investors.

**(iv) Malaysian Public**

3,000,000 Public Issue Shares will be made available for application by Malaysian citizens, societies, co-operatives and institutions of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

In addition, the Offeror will offer for sale 3,764,200 ordinary shares of RM1.00 each at an offer price of RM1.60 per ordinary share and RM12,778,400 nominal value of ICULS in PKHB at an offer price of 100% of the nominal value and the allocation will be made in the following manner:-

**(i) Bumiputera Investors Approved by MITI**

3,764,200 Offer for Sale Shares will be offered to Bumiputera investors approved by MITI.

**(ii) Private Placement**

RM11,778,400 nominal value of ICULS will be reserved for private placement to identified investors.

**(iii) Malaysian Public**

RM1,000,000 nominal value of ICULS will be made available for application by Malaysian Public.

6,200,000 ordinary shares of RM1.00 each which are made available to the Malaysian Public and eligible Directors, employees, customers and suppliers of PKHB Group and the RM1,000,000 nominal value of ICULS in PKHB to be offered by the Offeror to the Malaysian Public at an offer price of RM1.00 each pursuant to the Offer for Sale have been underwritten. Details of the brokerage fee and underwriting commission relating to the Public Issue and Offer for Sale are set out in Section 3.11 of this Prospectus.

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**3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)**


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**3.6 Salient Features of ICULS**

<b>Issue size</b>	:	RM85,189,374
<b>Issue Price</b>	:	100% of the nominal value of ICULS of RM1.00 each
<b>Maturity Date</b>	:	The date falling 3 years from the date of the issue of ICULS
<b>Compon rate</b>	:	3% per annum payable in arrears annually during the 3-year period. The last interest payment shall be made on the maturity date of the ICULS
<b>Tenure</b>	:	3 years from the date of issuance of the ICULS
<b>Conversion Price</b>	:	RM1.60 per new PKHB Share. The conversion price is also subject to adjustments in accordance with the trust deed constituting the ICULS
<b>Security</b>	:	The ICULS will be unsecured
<b>Form and Denomination</b>	:	The ICULS will be issued in registered form and in multiples of RM1.00 nominal value each
<b>Mode of Conversion</b>	:	The conversion price shall be satisfied by tendering 1.6 ICULS of RM1.00 each for cancellation for one (1) new ordinary share to be credited as issued and fully paid-up share capital of PKHB
<b>Conversion Period</b>	:	Convertible into fully paid-up ordinary shares of RM1.00 each in PKHB at any time from the issue date up to and including the maturity date
<b>Conversion Rights</b>	:	Each registered holder of the ICULS shall have the right to convert such amount of the ICULS held into fully paid new ordinary shares in PKHB at the conversion price
<b>Redeemability</b>	:	The ICULS will be non-redeemable for cash. All outstanding ICULS will be converted into new ordinary shares of RM1.00 each on the maturity date
<b>Automatic Conversion</b>	:	Unless previously converted, all outstanding ICULS will be mandatorily converted by PKHB into new ordinary shares in PKHB at the conversion price on the maturity date
<b>Right of ICULS Holders on the event of default</b>	:	Upon the occurrence of such an event of default, the ICULS holders, may by way of a special resolution, direct the trustee by giving notice in writing to the Company to declare the ICULS then outstanding as being immediately payable by the Company
<b>Listing</b>	:	Application will be made to the MSEC for the admission to the Official List for the listing of and quotation for the ICULS and the new ordinary shares in PKHB arising from the conversion of the ICULS
<b>Status</b>	:	The ICULS shall be unsecured and unsubordinated obligations of PKHB

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)

- Trust Deed** : The ICULS are constituted by a trust deed executed by PKHB and Malaysian Trustees Berhad dated 13 January 2004. The trustee acts for the benefit of the holders of the ICULS
- Governing law** : The ICULS and the Trust Deed will be governed by and construed in accordance with the laws of Malaysia
- Status of new shares upon conversion of ICULS** : The new shares to be issued on conversion of the ICULS shall rank pari passu in all respects with the then existing issued shares of PKHB save for any dividends, rights, allotments or other distributions of which their respective entitlement dates are before the conversion date of the ICULS

#### 3.7 Basis of Arriving at the Issue/Offer Price

The Issue/Offer Price of RM1.60 per ordinary share was determined and agreed upon by the Company, Offeror and Aseambankers as the Adviser and Managing Underwriter based on inter-alia, the following factors:-

- (a) the Group's financial and operating history and conditions as outlined in Section 10 of this Prospectus;
- (b) the prospects of the industry in which the Group operates as outlined in Section 5.7 to 5.10 of this Prospectus;
- (c) the forecast basic net PE multiple of and fully diluted net PE multiple of 6.96 times and 11.33 times respectively based on the basic net EPS and fully diluted net EPS of 22.99 sen and 14.12 sen respectively as set out in Section 10.6 of this Prospectus;
- (d) the proforma Group NTA per share of RM1.50 and RM1.54 after the Public Issue and conversion of the ICULS respectively as set out in Section 10.11 of this Prospectus; and
- (e) the forecast net dividend yield of 2.25% as set out in Section 10.9 of this Prospectus.

#### 3.8 Utilisation of Proceeds

The Public Issue is expected to raise total gross proceeds of approximately RM31.328 million from the Public Issue and would be utilised by the Group in the following manner:-

	Reference	RM'000	Expected Time Frame for Utilisation of Proceeds
1. Purchase of machinery	(a)	2,000	12 months after Listing
2. Working capital	(b)	10,647	1 month after Listing
3. Acquisition of 55% equity interest in PKJM from Precious	(c)	12,681	1 month after Listing
4. Expansion	(d)	3,000	18 months after Listing
5. Estimated listing expenses	(c)	3,000	1 month after Listing
<b>Total</b>		<b>31,328</b>	

The net proceeds after deducting estimated listing expenses of RM3.0 million is RM28.328 million.



**3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)**

The estimated RM3.0 million in respect of expenses and fees incidental to the listing of and quotation for the entire issued and paid-up share capital of PKHB on the Main Board of the MSEC shall be borne by the Company.

No part of the gross proceeds which amount to approximately RM18.801 million arising from the Offer for Sale is receivable by PKHB. The gross proceeds from the Offer for Sale shall accrue entirely to the Offeror. The Offeror shall bear the stamp duty and other charges relating to the Offer for Sale.

There is no minimum subscription to be raised from the Public Issue as the Public Issue Shares are fully underwritten.

*Note:-*

**(a) Purchase of machinery**

*To expand on its manufacturing activities, the Group proposes to invest in additional machinery and equipment in order to increase its manufacturing capacity for its new plating line. Details of the machineries are as follows:-*

<b>Type of Machinery</b>	<b>Description</b>	<b>Expected Enhancement</b>
(i) 1 unit of platinum casting machine	To melt and cast gold alloys, silver and platinum	New production
(ii) 2 units of soldering end link machine	To shape and to solder a ring onto chain ends or other components of different shapes with a maximum production speed of soldering 24 chains per minutes	Quality and quantity
(iii) 2 units of stone setting machine	Offer the ability to set precious stones for single work as well as serial work	Quality and quantity
(iv) 1 unit of CNC milling machine	A computational numerical control machine capable of performing faceting, milling, pearling, engraving and drilling rings	New design and production
(v) 1 unit of laser welding machine	High precision welding, making it ideal machine to weld small and difficult to reach joint. Its low heat influence zone also makes it an ideal choice for welding adjacent to precious stones and pearls	Quality and new technology
(vi) 1 unit of CAD/CAM system with CNC engraving machine	Ability to engrave on steel and wax. Steel engraving will enable the finished steel to be used for stamping of pendant and chain design, while the wax can be used to produce models for casting	Design
(vii) 1 unit of earring soldering machine; and	Semi automatic bench size machine for the production of earring pins	Quality and quantity

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)

<i>Type of Machinery</i>	<i>Description</i>	<i>Expected Enhancement</i>
(viii) 1 unit of electroforming system.	A 24K gold computerised electroforming with auto replenishing system	New production

**(b) Working capital**

An amount of RM10.647 million of the proceeds will be utilised for the working capital purposes of PKHB to support its existing business operations which includes financing its purchases and operating expenses.

**(c) Acquisition of 55% equity interest in PKJM from Precious**

An amount of RM12.681 million of the proceeds will be utilised to fund the acquisition of 55% equity interest in PKJM from Precious pursuant to the Acquisition of PKJM.

Pursuant to the SPA dated 28 May 2003 between PKHB and the vendors of PKJM, Precious expressly agreed that the sum of RM12,680,970 shall on the completion date be deemed paid by PKHB to Precious and thereafter the same shall be treated as inter-company loan from Precious to PKHB. The said sum shall be repaid from the proceeds of the Listing within 30 days from the receipt of the same.

**(d) Expansion**

As part of its vision, PKHB is endeavouring to expand its retailing operations overseas to address other markets outside of Malaysia.

The two main markets targeted by PKHB include Australia and China. It is expected that the Group will undertake feasibility studies to assess the potential of establishing retail outlets in these two countries.

**(e) Estimated listing expenses**

Approximately RM3.0 million will be allocated for the estimated expenses relating to the listing exercise. Any variation in the actual listing expenses from the estimated amount will be adjusted in the amount allocated for working capital.

Details of the estimated listing expenses are provided in Section 3.12.

### 3.9 Underwriters

The names of the underwriters are as follows:-

Managing Underwriter	:	Aseambankers
Underwriters	:	Aseambankers Mayban Securities Sendirian Berhad

The underwriters may withdraw from their obligations under the Underwriting Agreement after the opening of the offer in the event that any of the warranties, representations, or undertakings given by the Company is breached prior to the listing date and on the occurrence of any unforeseen circumstances beyond the reasonable control of the contracting parties.

The Company shall bear all expenses such as brokerage and underwriting commissions, registration fee relating to the Public Issue together with all other expenses and fees incidental to the listing of and quotation for the entire issued and paid-up capital of PKHB on the Main Board of the MSEB estimated at RM3.0 million.

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)

#### 3.10 Salient Terms of the Underwriting Agreement

The managing underwriter and the underwriter mentioned herein have agreed to underwrite the following :-

- (i) 3,000,000 ordinary shares in PKHB of RM1.00 each available for application by the Malaysian Public;
- (ii) 3,200,000 ordinary shares in PKHB of RM1.00 each available for application by eligible Directors, employees, customers and suppliers of PKHB and its subsidiaries; and
- (iii) RM1,000,000 nominal value of ICULS in PKHB to be offered under the Offer for Sale to the Malaysian Public at an Offer Price of 100% of the nominal value.

The following are some of the salient terms contained in the underwriting agreement dated 16 January 2004:-

#### **Clause 4.3 - Obligation to Underwrite**

*The obligations of each of the underwriters under this agreement are several. The failure of any of the underwriters to carry out its obligations under this agreement shall not relieve any other of the underwriters from any of their respective obligations under this agreement and cause any of the other underwriters to be responsible for any liability whatsoever caused by such failure.*

#### **Clause 5 - Conditions**

#### **Clause 5.1 - Details**

*The obligations of the underwriters to underwrite the underwritten securities under this agreement are conditional on the performance by the Company of its obligations under this agreement and on:-*

#### **Clause 5.1.1**

*The Managing Underwriter being of the opinion at the Closing Date (being the last date for acceptance, application for and payment of the subscription or purchase moneys under the issue documents) that:*

- (a) *no material change or any development likely to result in a material adverse change in the financial position, business operations or conditions (financial or otherwise) of the Group taken as a whole from that provided in the Prospectus; or*
- (b) *there has not occurred any event or the discovery of any facts or circumstances which would render any representation, warranty or undertaking in Clause 10 (Representations Warranties and Undertakings) materially untrue or inaccurate or result in a material breach of this Agreement by the Company;*

#### **Clause 5.1.2**

*The issue of the Prospectus not later than three (3) months from the date of this Agreement or such later date as the underwriters and the Company may from time to time agree;*

#### **Clause 5.1.3**

*The issue of the Prospectus and the obligation of the underwriters to underwrite the underwritten securities not being prohibited or impeded by any statute, order, rule, directive or regulation promulgated by any legislative, executive or regulatory body or authority of Malaysia on or before the Closing Date;*

**3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)**

**Clause 5.1.4**

*The registration of the Prospectus with the SC and its lodgment with the Companies Commission of Malaysia by the Issue Date (being the date of issue of the Prospectus in Malaysia being a date not later than three (3) months from the date of the underwriting agreement or such later date as the Company and the underwriters may time from time agree);*

**Clause 5.1.5**

*All the approvals of the SC, the FIC and the MITI referred to in Clause 1.2 remaining in full force and effect and that all conditions precedent to the approvals have been complied with;*

**Clause 5.1.6**

*The approval in principle of the MSEB to the admission of the Company to the Official List and the listing of and quotation for its entire enlarged share capital consisting of up to 117,243,359 ordinary shares and RM85,189,374.00 nominal value of ICULS being obtained on terms acceptable to the Managing Underwriter and remaining in full force and effect and that all conditions precedent (except for any which can only be complied with after the Public Issue and Offer for Sale have been completed) have been complied with;*

**Clause 5.1.7**

*The Managing Underwriter being satisfied that the Company be admitted to the Official List and its share capital and RM85,189,374.00 nominal value of ICULS listed and quoted on the Main Board of the MSEB without undue delay;*

**Clause 5.1.8**

*The Managing Underwriter being satisfied with the arrangements of the Company to pay the expenses referred to in Clause 10;*

**Clause 5.1.9**

*The Managing Underwriter receiving a copy certified by a director or secretary of the Company to be a true and accurate copy and in full force and effect of a resolution of the Directors:*

- (a) approving this agreement and the transactions contemplated herein;*
- (b) authorising a person to sign and deliver this agreement on behalf of the Company,*

**Clause 5.1.10**

*This agreement being signed by all parties and stamped;*

**Clause 5.1.11**

*The Closing Date being within six (6) months from the agreement date.*

**Clause 5.2 - Waiver**

*The Managing Underwriter may at its discretion and with the consent of the majority underwriters waive all or any of the conditions except for those required by virtue of a mandatory rule of law or a mandatory requirement of governmental, public or regulatory authorities in connection with this agreement.*

**3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)**

**Clause 5.3 - Non satisfaction**

*If:*

**Clause 5.3.1 - Pre Issue Date**

*Any of the conditions in Clauses 5.1.2, 5.1.9, 5.1.10 or 5.1.11 (to the extent not waived) are not satisfied by the Issue Date; or*

**Clause 5.3.2 - Closing Date**

*Any of the conditions other than those referred to in Clause 5.3.1 to the extent not waived are not satisfied by the Closing Date, the Managing Underwriter after consultation with the underwriters shall be entitled to terminate this agreement and in such event the provisions of Clause 13 shall apply.*

**Clause 6 - Issue**

*The Company agrees that:*

**Clause 6.2 - Ranking**

*It will ensure that all ordinary shares issued under the Public Issue, Offer for Sale and arising from the conversion of the ICULS will be free from all encumbrances and will rank *pari passu* in all respects with the other existing issued and paid up share capital of the Company including, voting rights and be entitled to all rights, dividends and distributions declared after the date of the allotment of such ordinary shares.*

**Clause 9 - Fees and Commission**

**Clause 9.1**

*In consideration of the underwriters agreeing to underwrite the underwritten securities, the Company shall pay to the underwriters an underwriting commission of two per cent (2%) of the Base Offer Price per underwritten securities ("the underwriting commission"). The amount of the underwriting commission payable to each of the underwriters respectively is set out in Column 4 of the Schedule hereto. Such underwriting commission shall be payable to the underwriters whether or not any allotment is made to the underwriters or their respective nominees pursuant to Clause 8. For the avoidance of doubt, any service tax chargeable in respect of the underwriting commission or fee shall be borne by the Company. In the event of late payment, the underwriters shall be entitled to charge interest at a rate of seven per centum (7%) per annum calculated on a daily basis on the underwriting commission or such part thereof due and outstanding from due date until the date(s) of actual receipt of payment.*

**Clause 13 - Termination**

**Clause 13.1**

*Notwithstanding anything contained in this agreement, any of the underwriters may by notice in writing to the Company given at any time before the Closing Date, terminate and withdraw their underwriting commitment if :-*

**3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)****Clause 13.1.1**

*in the reasonable opinion of the majority underwriters there shall have occurred, happened or come into effect any of the following circumstances:-*

- (a) any material breach by the Company of any of the representations, warranties or undertakings contained in Clause 10 (Representations, Warranties and Undertakings) (which, if capable of remedy, is not remedied within seven (7) market days after notice of such breach shall have been given to the Company by the underwriters or by the Closing Date, whichever is the earlier) or material breach of any of the terms and conditions of this agreement by the Company,*
- (b) any change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the abovementioned events or occurrences;*
- (c) any change in any law, regulation, directive, policy or ruling in any jurisdiction;*
- (d) the average MSEB composite index for three (3) consecutive market days falls below six hundred (600) points on or before the Closing Date;*
- (e) any events or series of events beyond the reasonable control of the underwriters including (without limitation) acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, acts of war, sabotage, acts of God or accidents which has or is likely to have the effect of making any material part of this agreement incapable of performance with its terms or which prevents the processing of applications and/or payments pursuant to the listing scheme or pursuant to the underwriting of the underwritten securities;*
- (f) there is failure on the part of the Company to perform any of its obligations contained in this agreement*

*which, in the reasonable opinion of the majority underwriters, would have or can reasonably be expected to have a material adverse effect on the business or operations of the Group taken as a whole or the success of the listing scheme.*

**Clause 13.2**

*Upon such notice being given, the underwriters shall be released and discharged of their obligations without prejudice to their rights under this agreement, and where the underwriters have terminated or withdrawn their underwriting commitments pursuant to Clause 13.1, this agreement shall be of no further force or effect and no party shall be under any liability to any other parties in respect of this agreement, except that the Company shall remain liable in respect of any of their obligations and liabilities under Clause 10 (Representations, Warranties and Undertakings) and under Clause 11 (Costs and Expenses) for the payment of the costs and expenses already incurred up to the date on which such notice was given and under Clause 7.3.2 (Prospectus and Listing) for the payment of any taxes, duties or levies.*

### 3. PARTICULARS OF THE PUBLIC ISSUE/OFFER FOR SALE (Cont'd)

#### 3.11 Underwriting Commission And Brokerage Fee

The underwriters mentioned earlier in this Prospectus have agreed to underwrite the 6,200,000 ordinary shares of RM1.00 each which are made available to the Malaysian Public and eligible Directors, employees, customers and suppliers of PKHB Group and the RM1,000,000 nominal value of ICULS in PKHB to be offered by the Offeror to the Malaysian Public at an offer price of RM1.00 each pursuant to the Offer for Sale. Underwriting commission is payable by the Company at the rate of 2% of the Issue/Offer Price of RM1.60 per ordinary share and of the nominal value of the ICULS.

Brokerage relating to the Public Issue is payable by the Company at the rate of 1% of the Issue Price of RM1.60 per ordinary share in respect of successful applications which bear the stamp of Aseambankers, participating organisations of the MSEB, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or MIDFCCS.

The Offeror shall bear the stamp duty (if any) and any other related expenses and fees relating to the Offer for Sale.

#### 3.12 Estimated Listing Expenses

The estimated listing expenses for the listing of and quotation for the enlarged issued and paid-up share capital of PKHB comprising 64,000,000 ordinary shares of RM1.00 each on the Main Board of the MSEB are as follows:-

	<b>To be borne by PKHB RM</b>
MSEB's fee	32,500
Prospectus lodgement and registration fee	5,500
SC's fee	88,622
Issuing house fee, registrar's fee, translation fee	200,000
Printing of application forms, share certificates and prospectus	350,000
Professional advisory fees	1,002,000
Underwriting commission and brokerage	654,519
Other miscellaneous expenses and contingencies	666,859
<b>Total</b>	<b>3,000,000</b>

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**4. RISK FACTORS**

- 4.1** Applicants for the Public Issue Shares, Offer for Sale Shares and Offer for Sale ICULS should carefully consider the following in addition to all the other relevant information contained elsewhere in this Prospectus, before applying for the Public Issue Shares, Offer for Sale Shares and Offer for Sale ICULS:-

**(a) Marketability of PKHB Shares**

Prior to this Public Issue and Offer for Sale, there has been no public market for PKHB's shares and there can be no assurance regarding the future development of the market for the shares upon its listing on the Main Board of the MASEB. The Issue/Offer Price of RM1.60 per ordinary share has been determined after taking into consideration of a number of factors, including but not limited to, the Group's financial and operating history and standing, the future prospects of the Group and the industry in which the Group is involved, the NTA of the Group, the valuation of all properties of the Group, the market prices for shares of other companies engaged in businesses similar to that of the Group and the prevailing market condition prior to the signing of the underwriting agreement.

There is no assurance that the Issue/Offer Price will correspond to the price at which PKHB's shares will trade on the Main Board of the MASEB upon or subsequent to its listing or that an active market for PKHB's shares will develop and continue upon or subsequent to its listing.

**(b) Ownership and Control of the Group**

Upon completion of the Public Issue and Offer for Sale, PKSB will be the controlling shareholder of PKHB, holding approximately 51% equity interest of the enlarged issued and paid-up share capital of PKHB upon listing.

As a result, it is likely that PKSB will be able to control the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law and/or the relevant authorities.

**(c) Business Risks**

The Group is involved in the retailing of gold ornaments, jewellery and precious stones, which is subject to certain risks inherent in the industry. Risks applicable to the gold jewellery industry would include fluctuations in prices of raw material, fluctuations in foreign exchange rates or currency controls, dependence on skilled craftsmen and designers, changes in the general economic and business conditions and changes in the legal and regulatory framework.

Although PKHB continuously seeks to minimise and mitigate business risks, no assurance can be given that any change to these factors will not have a material adverse effect on the business of the PKHB Group.

**(d) Competition**

There are approximately 3,000 retailers and 48 licensed manufacturers of jewellery\* in Malaysia in 2003. In addition, imports of jewellery amounted to RM4.1 billion in 2002 (*Source: Assessment of the Gold Jewellery Industry prepared by Vital Factor Consulting Sdn Bhd*). All these place significant competitive pressure on the Group's business. The Group mitigates competitive pressure in the following manner:-



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

- (i) The Group's established track record, consumer awareness of its "Poh Kong" brand and continuing brand building provides consumer confidence of the quality of its products in creating strong customer loyalty;
- (ii) The Group has the largest number of retail outlets in Malaysia providing maximum reach to consumers to compete against other retailers;
- (iii) The Group undertakes its own manufacturing enabling them to create exclusive design in contrast to many other retailers that buy common design products from wholesalers; and
- (iv) The Group undertakes significant research and development, particularly in the areas of product design to ensure that its products are contemporary, abreast of fashion trends and meet the needs of different segments of the market.

While the Group is constantly improving its operations to remain competitive, no assurance can be given that the Group will be able to maintain its existing market position in the future.

*Note:-*

\* *Jewellery comprise the following categories:-*

- *natural, or cultured pearls and precious or semi-precious stones*
- *precious metals and metals clad with precious metal*
- *jewellery, goldsmiths' and silver smiths' wares and other articles*

#### (e) Key Management and Key Personnel

The Group believes that its continued success depends to a significant extent the abilities and continued efforts of its existing Directors and competent senior management team. The loss of any of the key members of the Group's Directors and senior management could adversely affect the Group's continuing ability to compete in the jewellery industry.

Hence, the Group's future success is dependent upon its ability to attract and retain skilled personnel. The Group is committed to provide continuous training to its employees in order to retain key management and personnel.

#### *Succession Plan*

PKHB Group's business is organised along functional lines where function/department heads are responsible for the effective and efficient execution of their duties. In addition, the Group practices management empowerment where function/department heads are relatively autonomous and have significant decision making authority within their span of control and within clearly defined boundaries. As such, there is no over reliance on the Managing Director to be involved in the details and all aspects of the operational and functional areas.

This management philosophy enables the Managing Director to focus on strategic matters and development of the business for growth and success. In addition, within each function, constant on-the-job training is undertaken to enable key staff to deputise the function/department head where necessary.

Nevertheless, the Group has put in place a management succession plan to ensure business continuity.

The Group's management succession plan is based on a two-pronged approach:-

- (i) Grooming senior management for succession to Managing Director; and
- (ii) Grooming existing staff and hiring new staff for functional management.

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

Part of the grooming process incorporates providing hands-on experiences in all aspects of the business of PKHB Group. Hands-on experience would also be supplemented with external training and professional development, including, among others:-

- (i) Marketing and Merchandising;
- (ii) Financial Management;
- (iii) Business and Strategic Management;
- (iv) Human Resource Management; and
- (v) Manufacturing Management.

Although with the management succession plan in place, there is no assurance that any changes to the existing management team of PKHB have no material effect on the business operating results and financial conditions of the PKHB Group.

##### (f) Dependencies on Major Suppliers and Customers

The Group's customers are primarily consumers. Any adverse socio-economic factors, such as decline in consumer confidence, expenditure and employment rate will impact on the Group's business. In mitigation, the Group has a large retail base providing it with consumer diversity and wide coverage to minimise the impact of negative socio-economic factors in any one sector.

The Group is dependent on suppliers for gold bullion for its manufacturing requirements and finished jewellery for retailing. Any interruption in supply would adversely impact on the Group's business. In mitigation, the Group has a diverse pool of suppliers. No one supplier represents more than 20% of total purchases in 2003. Please refer to Section 5.9 of this Prospectus for the Group's major suppliers.

The Group is also dependent on the import of gold bullion as raw materials for its manufacturing activities. With local production being insufficient to meet local needs, any interruption in imports of gold bullion would materially impact on the Group's business. In mitigation, gold is a commodity that is readily available in the world market. In addition, there has been no shortage in supply of gold in recent history.

Although PKHB seeks to limit these risks, no assurance can be given that any change to these factors will not have a material effect on the business of the PKHB Group.

##### (g) Political, Social and Economic Considerations

Like other business entities, adverse development in political, social and economic conditions in Malaysia and other countries in which the Group has business operations or trading could have unfavourable impact on the financial prospects of the Group. Other political and economic uncertainties include risks of wars, expropriations, nationalization, renegotiation, and changes in exchange rates, interest rates and taxation policies. There can be no assurance that any changes to these factors will not have a material adverse effect on the business of the PKHB Group.

##### (h) Profit Forecast

This Prospectus contains the consolidated profit forecast for PKHB Group that has been prepared based on assumptions, which the Directors of PKHB believe to be reasonable, but which nevertheless, are subject to uncertainties and contingencies.

Due to the basis of assumptions and inherent uncertainties of forecasts and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecast contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecast that are contained herein.

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

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**(i) Foreign Exchange Fluctuations**

PKHB's business involves retailing and supplying of gold ornaments, jewellery and precious stones. Purchases of raw materials, finished products and sales of gold jewellery are affected by foreign exchange fluctuations, which are transacted directly or indirectly in US currency. The imposition of currency controls via the pegging of the RM to USD at the fixed exchange rate of USD1.00 to RM3.80 by Bank Negara Malaysia on 1 September 1998 has stabilized the risks arising from foreign exchange fluctuation.

However, there can be no assurance that the currency controls will remain and that future exchange fluctuations arising from lifting of the currency controls or the adjustment of the RM to USD peg will not adversely affect the financial results of the PKHB Group.

**(j) Seasonality**

Market demand for gold jewellery products always exist throughout the year. However, sales tend to be higher in certain months due to festive seasons such as Chinese New Year, Hari Raya, Deepavali and Christmas. Certain special occasions, such as Valentine's Day, Mother's Day, engagements and anniversaries will also spur the demand in gold jewellery.

During these festive seasons and special occasions, PKHB normally increase their stocks in advance in anticipation of higher sales. This will only bode well for PKHB.

**(k) Domestic Borrowings**

PKHB's working capital and capital expenditure is financed partly by bank borrowings. As such, PKHB has interest commitments due to facilities granted by the domestic financial institutions such as overdrafts and term loans. While every effort is taken to ensure that no adverse effects arise from the loans and interest commitment, no assurance can be given that these commitments in future will not have any material impact on the Group's financial performance.

As at 31 July 2003 (being the latest available audited accounts) and 19 January 2004 (being the latest practicable date of which such amounts could be determined prior to the printing of this Prospectus), the Group's total borrowings amounted to RM51,020,809 and RM54,259,421 respectively. Please refer to Section 10.5(iv) of this Prospectus for details.

Save as disclosed above, PKHB does not have any other bank borrowings, hire purchase or commitments on guarantees.

The Group, pursuant to facility / loan agreements entered into by the Group with banks or financiers, are bound by certain positive and negative covenants, which may limit the Group's operating and financial flexibility. The aforesaid covenants are of a nature which are commonly contained in credit facility agreements in Malaysia. Any act by the Group falling within the ambit or scope of such covenants will require consent of the relevant bank/financier. Breach of such covenants may give rise to a right by the bank/financier to terminate the relevant credit facility and/or enforce any security granted in relation to that facility. The Board of Directors of PKHB is aware of such covenants and shall take precautions necessary to prevent any such breach.

**(l) Cross Default Risks on Borrowings Agreements**

PKHB, pursuant to credit facility agreements entered into by it and its subsidiary companies with banks or financiers, are bound by cross default clauses in such credit facility agreements whereby in the event PKHB or any of its subsidiary companies goes into default under, or commits a breach of, any instrument or agreement relating to any indebtedness or guarantee, that default or breach can also constitute an event of default on PKHB's credit facilities and/or its subsidiary companies' credit facilities.

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

As at 19 January 2004 (being the latest practicable date of which such amounts could be determined prior to the printing of this Prospectus), the Group's total bank borrowings, overdraft facilities, hire purchase facilities and term loan facilities amounted to approximately RM54,259,421. Any increase in interest rates will increase the burden of the Group with respect to interest payments of the loans and hire purchase depending on the total outstanding at that point in time.

**(m) Fluctuations in the Prices of Gold**

As gold is a major raw material for the manufacturing of gold jewellery, operators will be exposed to fluctuations in world prices. Prices of gold tend to increase during times of crisis such as an impending threat of war or world economic downturn as gold is the next most liquid form of investment after cash, stocks and bonds. Fluctuations in world prices for gold will directly impact on the cost of raw materials for operators in the manufacturing of gold jewellery. In addition, the increase in gold prices may also adversely affect consumer demand reducing the affordability for gold jewellery.

However as increases in the price of gold are passed back immediately to the consumer at the point of purchase, this somewhat reduces the impact of rising cost of raw materials on the operations of PKHB. In addition, the spread between buying and selling prices provides some buffer for PKHB Group.

**(n) Dependence on Skilled Craftsmen and Designers**

PKHB's continuing success is dependent on the quality and design of its products. As such, it relies on the skills of its craftsmen, designers and research and development team to keep abreast of fashion trends, create innovative and appealing designs, and maintaining high product quality standards. Thus, inability to retain or continually attract new skilled personnel would have an adverse impact on the Group's business.

Recognising the importance of skilled craftsmen and designers to its business, PKHB has taken efforts to ensure that they are retained and new recruits are attracted to join PKHB Group. Primarily these efforts are focused on creating a conducive and attractive working environment as follows:-

- (i) providing continuous professional development through in-house and external training, and opportunities to pursue new designs and products;
- (ii) providing clear career path to recognise and reward experience, skills and work performances; and
- (iii) ensuring compensation packages are in-line with market rates.

Craftsmen and designers are being recruited and groomed for succession planning purposes so as to ensure the consistency of the Group's quality of products manufactured in the long term. The Group is confident of strengthening its position as Malaysia's premier jewellery chain, judging by the quality and high standard of its products.

**(o) Risk Associated with Security**

PKHB has taken adequate preventive and precautionary measures through the implementation of security measures such as the installation of closed circuit television ("CCTV") and the engagement of internal and external security guards. To ensure the security of PKHB's inventory, other security measures have been taken, such as the use of different entrances for operators and non-operators and also the use of a Central Monitoring System ("CMS"). Strong rooms are also available for the storage of the inventory of gold and jewellery. Although the management strives to mitigate these risks, no assurance can be given that the security measures are adequate in the long-term to prevent any loss due to theft or robbery.

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

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**(p) Threat of Substitute Product**

Gold jewellery products face competition from costume jewellery and other precious metal jewellery products such as silver. However, it is obvious that costume jewellery will not be able to replace or substitute gold jewellery in its entirety as they cater to a different market segment and do not have any significant investment value. As gold is an internationally traded commodity and pegged to international gold prices (quoted in USD), it is more liquid in nature as compared to other precious jewellery and is therefore more marketable.

According to the Malaysian Industrial Development Authority, among the 48 jewellery companies with manufacturing licences, four of them are in the manufacturing of costume jewellery. Between 1998 and 2002, the import value of imitation jewellery (including costume jewellery) increased at an average annual rate of 10.1% to reach approximately RM14.7 million in 2002. In contrast, the import of total jewellery (as defined in item (d) above) amounted to RM4.1 billion in 2002. The above indicates that, although costume jewellery may be a threat to genuine jewellery, the threat is relatively low. *(Source: Assessment of the Gold Jewellery Industry prepared by Vital Factor Consulting Sdn Bhd)*

The Group will nevertheless strive to mitigate this risk by continuous emphasis on innovative product designs and quality of its gold jewellery. Also, prompt attention will be taken to ensure that the Group's products are kept in line with the current market changes due to consumer tastes and fashion trends.

Another risk that the Group faces is the possibility of a move away from gold to other precious metals, for example silver or platinum, or gemstones. As gold jewellery represented approximately 78% of PKHB Group's total revenue for year ended 31 July 2003, any significant move away from gold jewellery could have an impact on the business of PKHB Group.

In mitigation, PKHB Group provides a wide range of jewellery based on non-gold precious metals including silver and platinum, as well as gemstones and gemsets. Additionally, it has a wide range of jewellery made from white gold, which are primarily gold and palladium alloy that looks very similar to silver. The Group also monitors trends closely such that they are able to react strategically if it detects any material move away from gold jewellery. The Group monitor trends through internal sales analysis, participating in international exhibitions, constant dialogues with other players in the market and keeping up-to-date with fashion magazines and publications.

**(q) Government Control and Regulation**

Adverse developments in political, economic and regulatory conditions in Malaysia could materially affect the financial prospects of the Group. Political and economic uncertainties such as changes in both monetary and fiscal policies, risks of civil unrest, expropriation, methods of taxation and currency exchange controls may impact on the performance of the Group as a whole. Growth of the jewellery manufacturing industry is correlated to the growth of the gold jewellery retailing industry. Hence, any Government's control or regulation imposed on either the manufacturing or the retail sector could materially and adversely affect the growth and profitability of the Group in the long term.

**(r) Insurance Coverage on the Group's assets**

At present, the Group's inventory of raw materials and finished products are insured against unforeseen circumstances such as fire, loss, damage, robbery and theft.

Although all reasonable steps have been taken by the Group to ensure that all its assets are adequately covered by insurance, no assurance can be given that the insurance coverage would be adequate for the replacement cost of the assets of the Group in the future.

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

(s) **Technology Used or To Be Used by PKHB Group and the Rapid Development of Technological Change**

In order to be the market leader in the gold jewellery industry, the Group has invested in new technology, purchasing new machinery amounting to RM2,000,000. The Directors believe that the new machinery will enable PKHB to attain higher productivity and enhance the quality of its products. The Group had set-up a manufacturing plant in Shah Alam at an approximate cost of RM12 million to increase its productivity. While the Group is constantly improving the technology used to remain competitive, no assurance can be given that the Group will be able to maintain its existing market position in the future.

(t) **Operational Risks**

Other operational risks including fire outbreaks, disruption to electricity supply, flood and water shortage would impact on the business operations of PKHB. In mitigation of these risks, the Group has put in place the following risk management or practices:-

- (i) PKHB has a strict policy of practicing and maintaining safety standards including its own 24-hour security with closed circuit television monitoring each area of the manufacturing plant to maintain the highest level of security including the risk of a fire.
- (ii) As part of the Group's safety procedures, the Group has a fire protection water sprinkler system covering the entire manufacturing plant, which will be activated automatically in the event of a fire.
- (iii) PKHB Group has its own water storage tank in the manufacturing plant to cater to any water shortages.
- (iv) PKHB Group has its own electricity generator in the manufacturing plant and is therefore not expected to be significantly impacted by any disruption in electricity supply.
- (v) The Group has adequate insurance coverage on the manufacturing plant, retail outlets, production equipment and machinery, and office equipment against any risk of fire or flood. The Group has not taken any coverage against the disruption in electricity supply as management is of the view that its manufacturing and retail operations will not be significantly affected.

However no assurance can be given that even with the existing risk management practices, the Group will not be affected in the event of a fire, flood or energy crisis.

(u) **Branding**

PKHB markets a range of its products under its own brand name "Tranz", which is targeted at the young female professionals, and a third party brand name under "Disney" characters, which is targeted at the children and young teens. However, the existing brand name and right afford only limited protections. Accordingly, there can be no assurance that the Group will be able to protect its propriety rights against unauthorised third party copying, use or exploitation, any of which could have a material adverse effect on the Group's business, operating results and financial conditions.

The Directors believe that the risk is however relatively low as the Group has successfully developed brand equity for its corporate name "Poh Kong". This corporate brand building would provide consumers with assurance of the quality of its products.

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


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**(v) Gold and its Investment Appeal**

One of the unique characteristics of gold jewellery is that it has intrinsic investment value in addition to its aesthetics value. There is a strong perception that gold jewellery can easily be exchanged for at the prevailing price of gold. To reaffirm this perception many gold jewellers have buy-back policies that guarantee repurchase of gold jewellery from customers. This intrinsic investment value has provided gold jewellery an added advantage and appeal over all other precious metals and gemstones.

However, if gold loses its intrinsic investment value, gold jewellery may lose its appeal and will materially affect PKHB Group's business.

In mitigation, PKHB Group provides a wide range of jewellery based on non-gold precious metals including silver and platinum, as well as gemstones and gemsets. The Group also monitors trends closely such that they are able to react strategically if it detects any material move away from gold jewellery.

**(w) Properties Pending Completion**

The Group had acquired 2 units of commercial shop lots in Bayan Shopping Mall, Penang and 2 units of commercial shop lots in Plaza Rakyat Shopping Mall, Kuala Lumpur, for a total purchase consideration of RM1,243,240 and RM2,245,680 respectively. The construction of these two (2) shopping malls has been abandoned. As at 31 July 2003, a total of RM1,510,977 and RM427,951 respectively have been paid being progress payments. The net book value of these two properties as at 31 July 2003 stood at RM1,510,977 (including capitalisation of interest) and RM427,951 respectively.

However, no provision have been provided for any diminution in value as neither the Directors nor the professional valuers are able to value those properties due to limitation of scope in assessing their values.

In mitigating any risk of diminution in values, the Promoters, namely Dato' Choon Yee Seiong and Cheong Teck Chong have furnished an undertaking to guarantee possible diminution in values of these properties by making good the difference between the net book value and the resale value in the open market should the projects not resume in 5 years' time from the date of this Prospectus.

In addition to the above, currently there are certain properties pending completion as set out in Section 9.1(b) of this Prospectus.

**(x) Delay in the Listing**

The success of the listing exercise is also exposed to the risk that it may be delayed should the following occur:-

- (i) the bumiputera investors approved by the MITI fail to take up the portion of the Public Issue Shares and Offer for Sale Shares;
- (ii) the underwriters fail to honour their obligations under the underwriting agreement;
- (iii) the Company is unable to meet the public spread requirement i.e. at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 ordinary shares of RM1.00 each in PKHB at the point of listing.

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

##### (y) Trade Debts

As at 31 July 2003, the summary of external trade debts ageing analysis of PKHB Group is as follows:

	Within	Exceeding Credit Period			Collected	Total
	<30 Days (RM)	<6 Months (RM)	6-12 Months (RM)	>12 Months (RM)	up to 19 Jan 2004 (RM)	
PKJ	210,751	45,295	54,904	6,390	(310,741)	6,599
PKJ (SS2)	38,980	11,289	8,166	8,208	(50,493)	16,150
PKJ (G.Wall)	789	-	-	6,932	(3,684)	4,037
PKJ (Maluri)	6,349	2,215	-	-	(7,394)	1,170
PKJ (T.Mall)	27,280	6,349	15,385	21,831	(31,249)	39,596
PKJ (O.Klang)	89,211	115,564	42,726	205,334	(228,063)	224,771
PKJ (S.Parade)	29,160	1,180	-	-	(26,640)	3,700
PKJ (Malacca)	-	-	-	860	(860)	-
PKJ (Banting)	12,905	480	-	-	(13,385)	-
PKJ (Ampang)	54,004	32,840	-	-	(86,844)	-
PKJ (BU)	17,500	-	-	-	(17,500)	-
DB	912	1,659	-	-	(2,571)	-
PKJ (Summit)	364	200	-	-	(564)	-
PKJ (Selayang)	300	-	-	-	(300)	-
<b>TOTAL</b>	<b>488,505</b>	<b>217,071</b>	<b>121,181</b>	<b>249,555</b>	<b>(780,288)</b>	<b>296,023</b>

The Directors of PKHB have confirmed that the trade debts as at 31 July 2003 which had exceeded the normal credit period were recoverable. As at 19 January 2004, a total of RM780,288 out of RM1,076,312, being the total trade debt as at 31 July 2003, were collected. The Directors of PKHB have further confirmed that full provision has been made for the remaining trade debts which have yet to be collected. Furthermore, they confirm that there have been no trade debts whereby the amounts have been disputed or legal proceedings have been initiated/taken.

##### (z) Forward-Looking Statements

Certain statements in this Prospectus are based on historical data which may not be reflective of the 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, the impact of new laws and regulations affecting the PKHB Group and the industry, changes in interest rates and changes in foreign exchange rates. In light of these uncertainties, the inclusion of forward-looking statements in this Prospectus should not be regarded as the plans and objectives of the Group will be achieved.

Save as disclosed above and elsewhere in this Prospectus, and as far as the Directors are aware, the Group is not vulnerable to any specific factors or events of a particular nature other than those normal commercial risks experienced during normal course of business.