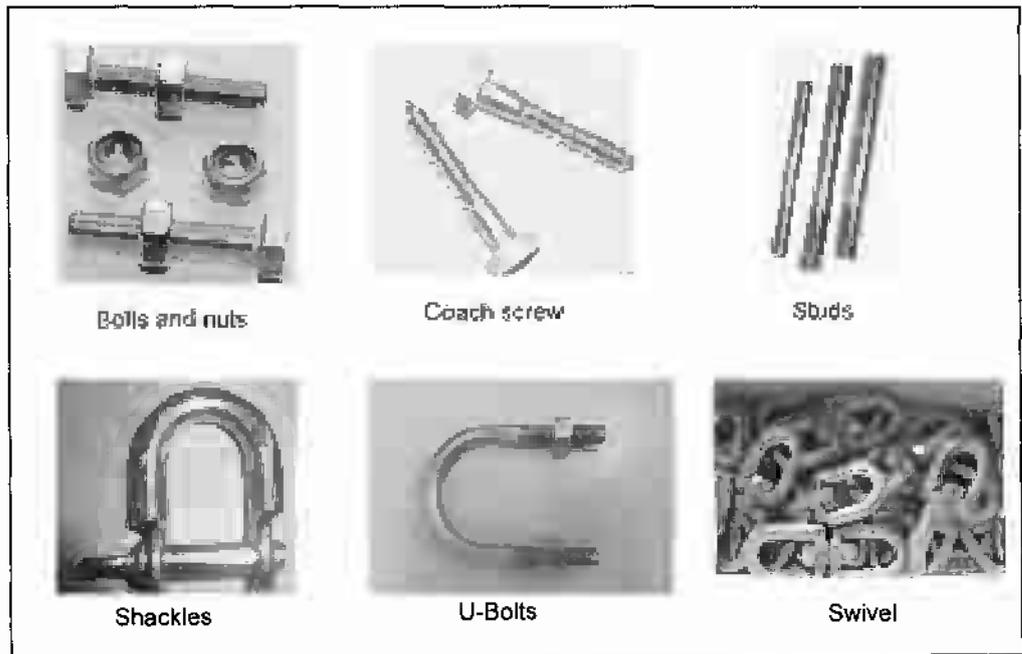


**5. INFORMATION ON OUR GROUP (Cont'd)**

**(b) Manufacture of Stainless Steel Industrial Fasteners, Rigging Accessories and Components**

Our Group is also involved in the manufacturing of stainless steel industrial fasteners, rigging accessories and components through our wholly-owned subsidiary, KSSM. The sales and marketing of stainless steel industrial fasteners, rigging accessories and components is undertaken by KSSI.

The types of stainless steel industrial fasteners, rigging accessories and components that are commonly manufactured by us are:



Types of Industrial Fasteners, Rigging Accessories and Components

The stainless steel industrial fasteners and components are manufactured through the following manufacturing activities:-

- Hot heading and upsetting:

The bolts and nuts are manufactured through a hot heading and upsetting process. This is a process where the stainless steel rod is cut into the required length and heated in a furnace. It is then upset into the desired head shape by pressing one end of the steel rod between two dies. At present, we mainly manufacture hexagon shaped bolt heads.

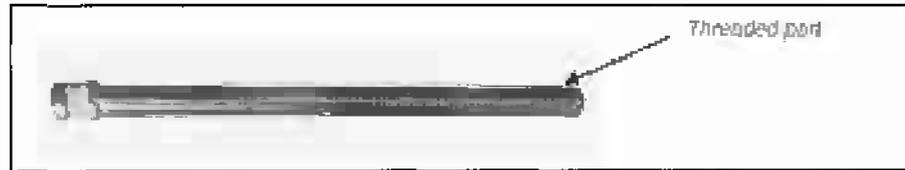


Hexagon Shape of Bolt Heads

## 5. INFORMATION ON OUR GROUP (Cont'd)

### - Threading:

This involves the cutting of threads around the circumference from the ends of pre-cut cylindrical blanks or rods, forming a bolt. The process gives the blank or rod screw-threaded ends for mating with nuts.



### - Blanking

Blanking is a shearing process where a piece of metal is stamped to a specified size and shape by applying a high degree of shearing force in a single motion, forcing the materials through a blanking die.

- Other manufacturing activities also include cutting and bending of stainless steel rods or round bars which are cut and bent to the required length for further processing. These other processes may include heading, threading, welding or bending to produce the stainless steel industrial fasteners like bolts and studs. Pre-cut rods or bars undergo a bending process to form either a 'U' shaped bend or squared U-shaped bend to produce U-bolts or shackles after being threaded.

### (c) Processing of Secondary Stainless Steel Products

Our Group is involved in the following processing activities for stainless steel products:-

#### (i) Processing of Stainless Steel Flat and Long Products

Our Group is involved in the processing of secondary stainless steel flat products and long products through our wholly owned subsidiaries, PTM and KSSI, respectively.

##### ❖ *Processed Stainless Steel Flat Products*

We purchase bulk quantities of steel coils from overseas steel mills or stockists, process the stainless steel coils through slitting and shearing and then re-sell the processed secondary stainless steel slitted coils or sheets to intermediate customers as disclosed in **Section 5.7.11** of this Prospectus.

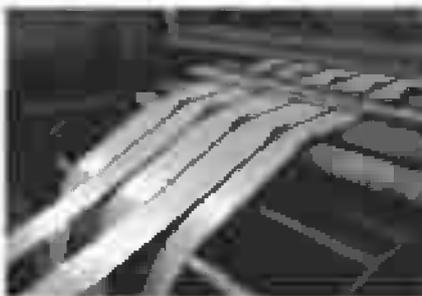
Our Group has the capabilities to process various thickness of the stainless steel slitted coils or sheets from stainless steel coils as specified below:

**5. INFORMATION ON OUR GROUP (Cont'd)**

- a) Cut-to-length stainless steel sheets of varying thickness between 0.4 mm and 3.0 mm and widths from 600 mm to 1,550 mm; and
- b) Slitted stainless steel coils of varying thickness between 0.4 mm and 3.0 mm and a minimum width of 28 mm with the ability to handle up to 28 slits.



Our Group's in-house processing facility is as follows:

	
Auto Shearing Machine	Cut-to-length Sheets
	
Auto Slitting Machine	Slitting Process
	
Slitted Products	

**5. INFORMATION ON OUR GROUP (Cont'd)****(ii) Processed Secondary Stainless Steel Long Products**

Our Group is also involved in the processing of secondary stainless steel long products, which includes stainless steel round bars, flats and angles through our wholly-owned subsidiary, KSSI. Some of the sizes and thickness of secondary stainless steel long products that we process include:

**Round Bars**

- Rolled bars of varying diameters ranging from 3.0 mm up to 254 mm;
- Forged bars of varying diameters ranging from 80 mm up to 305 mm.



Stainless Steel Round Bars

**Flats and Angles**

- Flats of varying widths ranging from 12 mm to up to 150 mm, and thickness ranging from 3 mm to up to 25 mm;
- Equal angles of varying sizes ranging from 20 mm X 20 mm to up to 150 mm X 150 mm, and with thickness ranging from 3 mm up to 9 mm.



Stainless Steel Flats



Stainless Steel Angles

**5. INFORMATION ON OUR GROUP (Cont'd)****(d) Trading Operations**

Our Group's trading business is undertaken by two (2) of our Group's wholly-owned subsidiaries, KSSI and TTH. Some of the industrial hardware products that are traded by us include:

- Marine hardware and consumables including, amongst others, polypropylene ("PP") and polyethylene ("PE") ropes, galvanised iron ("GI") wire, wire ropes and wire netting, nylon trammel and PE nets, copper tubes, chain, brass stern gland and propellers, square boat and shank spikes, packing and asbestos sheets, stainless steel electrode and rigging hardware such as zincked block, pulley, pin shaft, hooks and chain block;
- Industrial hardware including, amongst others, bronze shaft, brass tubes, other steel industrial fasteners such as high tensile ("HT"), mild steel ("MS") and GI bolts and nuts, screws, washers and shackles, ductile iron pipe and fittings such as flange, valves, tapers, hose clips and clamps, industrial hoses such as spring hose, polyvinyl chloride ("PVC") hose, black rubber suction and water hose and PVC reinforced air hose, alloy chain, stainless steel wire mesh, colour cotton rag, rubber conveyor belt, industrial wipes, safety absorbent and fibre ceramic blanket.

**5.7.3 Our Principal Markets**

Our principal markets comprise local and overseas markets. For the past three (3) FYE 31 December 2009 and eight (8) months FPE 31 August 2010, our Group's revenue contribution segmented by geographical markets are as follows:

BY GEOGRAPHICAL MARKETS	FYE 31 December						FPE 31 August 2010	
	2007		2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	58,195	75.87	50,640	64.10	58,306	72.81	39,321	81.62
<b>Overseas market:</b>								
Indonesia	11,847	15.44	14,563	18.43	6,685	8.36	193	0.40
Singapore	6,585	8.58	12,023	15.22	12,600	15.73	5,836	12.11
United Kingdom	66	0.09	1,680	2.13	1,116	1.39	687	1.43
Brunei	14	0.02	92	0.12	100	0.12	65	0.13
Papua New Guinea	-	-	-	-	1,274	1.59	2,077	4.31
<b>Total Overseas Market</b>	<b>18,512</b>	<b>24.13</b>	<b>28,358</b>	<b>35.90</b>	<b>21,775</b>	<b>27.19</b>	<b>8,858</b>	<b>18.38</b>
<b>Total revenue</b>	<b>76,707</b>	<b>100.00</b>	<b>78,998</b>	<b>100.00</b>	<b>80,081</b>	<b>100.00</b>	<b>48,179</b>	<b>100.00</b>

The local market sales have contributed approximately 75.87%, 64.10%, 72.81% and 81.62% to our total revenue for the past three (3) FYE 31 December 2009 and eight (8) months FPE 31 August 2010 respectively. We have been expanding our overseas market mostly through the indirect distribution strategy wherein we export to the industrial hardware wholesalers and retailers based in the respective countries. We generally adopt this strategy as it provides us with easy access to expand our market coverage without the need for significant investment given that these industrial wholesalers and retailers have their own distribution network to reach various end-customers. Presently, our export markets include Singapore, Indonesia, Papua New Guinea, United Kingdom and Brunei.

## 5. INFORMATION ON OUR GROUP (Cont'd)

The demand for our secondary stainless steel products and industrial hardware in these overseas markets is generally dependent on the level of economic activity and the growth of our target markets as disclosed in **Section 5.7.1(c)** of the Prospectus. As some of our customers perform work on a project basis, the annual fluctuation in the sales of our products is also partially attributable to the commencement and/or completion of the relevant projects undertaken. In particular, we believe that the substantial decline in the sales of products to the Indonesian market in the eight (8) months FPE 31 August 2010 was mainly attributable to the completion of projects undertaken by our major customers there.

Moving forward, we intend to expand our market coverage by exporting to Thailand, Vietnam and Philippines vide the indirect distribution strategy as disclosed in **Section 5.9 (b)** of this Prospectus.

### 5.7.4 Seasonality

Save for the slowdown in the demand for our products during the festive period particularly in the first quarter of the year, our Group does not experience any material seasonality in our business operations.

### 5.7.5 Types, sources and availability of raw materials/input

Stainless steel coils and stainless steel round bars are the main raw materials used by our Group for the production of our secondary stainless steel products. These raw materials are sourced from overseas given that there are no producers of primary stainless steel raw materials in Malaysia.

For the eight (8) months FPE 31 August 2010, the major types of raw materials and industrial hardware are as follows:-

	VALUE OF PURCHASES	% OF TOTAL GROUP PURCHASES	SOURCES OF SUPPLY	
	(RM'000)	(%)	LOCAL (%)	IMPORT (%)
<b>Raw Materials for Manufacturing and Processing Operations</b>	<b>25,448</b>	<b>63.24</b>	-	<b>100.0*</b>
Stainless steel coils	14,270	35.46	-	100.0
Stainless steel round bars	11,178	27.78	-	100.0
<b>Industrial Products for Trading Operations</b>	<b>14,791</b>	<b>36.76</b>	<b>21.38</b>	<b>78.62</b>
Marine hardware and consumables <sup>(1)</sup>	11,932	29.65	20.97	79.03
Industrial hardware <sup>(2)</sup>	2,859	7.11	23.12	76.92
<b>TOTAL</b>	<b>40,239</b>	<b>100.0</b>	<b>7.86</b>	<b>92.14</b>

The purchases of raw materials and industrial hardware for the eight (8) months FPE 31 August 2010 amounted to approximately RM40.24 million.

#### Notes:

- \* Includes some purchases from local stockists
- # The stainless steel coils and round bars are mostly sourced from Thailand, China, Korea, Italy, Taiwan and Brazil as disclosed in **Section 5.7.18** of this Prospectus. The industrial products for our trading operations are mostly sourced from amongst others, China, Singapore, Korea, Taiwan and Japan.
- (1) Includes, amongst others, PP and PE ropes, GI wire, wire ropes and wire netting, nylon trammel and PE nets, copper tubes, chain, brass stem gland and propellers, square boat and shank spikes, packing and asbestos sheets, stainless steel electrode and rigging hardware such as zincked block, pulley, pin shaft, hooks and chain block.
- (2) Industrial hardware including, amongst others, bronze shaft, brass tubes, other steel industrial fasteners such as HT, MS and GI bolts and nuts, screws, washers and shackles, ductile iron pipe and fittings such as flange, valves, tapers, hose clips and clamps, industrial hoses such as spring hose, PVC hose, black rubber suction and water hose and PVC reinforced air hose, alloy chain, stainless steel wire mesh, colour cotton rag, rubber conveyor belt, industrial wipes, safety absorbent and fibre ceramic blanket.

## 5. INFORMATION ON OUR GROUP (Cont'd)

### (a) Raw Materials for Manufacturing and Processing Operations

The major raw materials purchased by our Group were stainless steel coils and round bars. Stainless steel coils are the main raw materials used by our Group to manufacture stainless steel tubes and pipes, and processing of stainless steel sheets. For the eight (8) months FPE 31 August 2010, purchases of stainless steel coils constituted the largest raw material purchases, accounting for 35.46% while stainless steel round bars accounted for 27.78% of our Group's total purchases of raw materials and industrial hardware.

Thus far, our management has not experienced any shortages in the supply of raw materials for our manufacturing and processing activities.

A discussion on the impact of fluctuations in the price of raw materials and fluctuation in foreign exchange rates on the prices of our raw material has been set out in **Section 4.1.1** and **Section 4.1.3** of this Prospectus.

### (b) Industrial Hardware for our Trading Operations

Some of the industrial hardware we purchase for our trading operations are as follows:

- Marine hardware and consumables including, amongst others, PP and PE ropes, GI wire, wire ropes and wire netting, nylon trammel and PE nets, copper tubes, chain, brass stern gland and propellers, square boat and shank spikes, packing and asbestos sheets, stainless steel electrode and rigging hardware such as zincked block, pulley, pin shaft, hooks and chain block;
- Industrial hardware including, amongst others, bronze shaft, brass tubes, other steel industrial fasteners such as HT, MS and GI bolts and nuts, screws, washers and shackles, ductile iron pipe and fittings such as flange, valves, tapers, hose clips and clamps, industrial hoses such as spring hose, PVC hose, black rubber suction and water hose and PVC reinforced air hose, alloy chain, stainless steel wire mesh, colour cotton rag, rubber conveyor belt, industrial wipes, safety absorbent and fibre ceramic blanket.

For the eight (8) months FPE 31 August 2010, purchases of industrial hardware for our trading operations accounted for 36.76% of our Group's total purchases of raw materials and industrial hardware for our trading operations. The bulk of these products were sourced from overseas suppliers and manufacturers, which accounted for 78.6% of our purchases of industrial hardware for our trading operations. The remaining 21.4% were sourced from local suppliers and manufacturers.

Thus far, our management has not experienced any shortages in the supply of industrial hardware for our trading purposes.

### 5.7.6 Technology used or to be used

Some of the relevant technologies employed in our Group's business operations include the following:

- Forming and welding technologies;
- Finishing processes;
- Cutting technologies;
- Cold and hot heading technology.

**5. INFORMATION ON OUR GROUP (Cont'd)**

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**(a) Forming and Welding Technologies**

We utilise forming and welding technologies in our production of stainless steel tubes and pipes.

***Roll Forming Technology***

Roll forming is a continuous metal forming process, in which roll forming machines are used to shape metal coils and sheets into parts such as tubes and pipes as the material moves through the machine. A roll-forming machine consists of a sequence of rollers located on the top and bottom of the machine. As the metal moves through the machine, the rollers bend the materials along the linear axis, forming a variety of different configurations.

During the roll forming process, only bending occurs. The thickness of the metal is not changed except for a slight thinning of the material at the bend radius. The major advantage of roll forming is to increase the strength to weight ratio over a plain metal sheet. This strength allows some shapes to be produced with thinner walls compared to other processes, thus reducing material costs.

***Welding Technology***

Our Group currently utilises the Tungsten Inert Gas Welding (TIG) process in the welding of stainless steel tubes and pipes. The welding process is a metal forming process which ensures that two metals are formed and joined strongly with the use of filter material and molten pool.

***Finishing Processes*****Grinding**

Grinding is a process used to remove defects and deep scratches from finished products. Grinding is commonly performed with the use of an electronic grinder with a rotatable grinding disc.

**Polishing**

Polishing is a process that smoothens and evens out scratches, lines and marks to provide a smoother and brighter finish to the surface of stainless steel products. Mechanical polishing and Electropolishing are two types of polishing methods commonly used. Mechanical polishing involves running the stainless steel tube or pipe through a series of rotating polishing wheels encircled with abrasive mounted belts. We utilise the mechanical polishing process for our secondary stainless steel products.

**(b) Cutting Technologies****Slitting**

Slitting is used to cut a wide coil into a number of narrower coils as it moves through the slitter, which uses a circular blade. Slitting blades are designed depending on the job required. The three critical determinants of the blade configuration include the work piece material thickness, the type of materials to be slit, and the tolerance that must be held while slitting.

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**5. INFORMATION ON OUR GROUP (Cont'd)**

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**Shearing**

Shearing is used to cut stainless steel coils into stainless steel sheets. During the shearing process, an upper blade and a lower blade are forced past each other with the space between them determined by a required offset.

**Cold and Hot Heading Technology**

- ***Cold Heading***

Cold heading is a cold forming process used to form and shape the head of a bolt by compressing the cut-to-length bar into a die. The die is designed to surround the bar at its neck, with the intended head section, which is the top part of the bar exposed for the process. A punch with a geometrical shape such as round, hexagon, square or oval, hammers the exposed head of the bar to form the shape of its head.

- ***Hot Heading***

Hot heading is another forming process to obtain the desired head shape of the bolt. Heat is used to soften the head of the steel rod. The heated rod is then forced between two dies to form the desired shape while it is still hot.

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## 5. INFORMATION ON OUR GROUP (Cont'd)

## 5.7.7 Production/operating capacity and output

The production output, capacity and utilisation of our Group's manufacturing facilities for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 are as follows:

Major Types of Products	For the FYE 31 December											
	2007			2008			2009			Eight (8) months FPE 31 August 2010		
	Production (tonnes)	Annual Capacity (tonnes)	Utilisation Rate (%)	Production (tonnes)	Annual Capacity (tonnes)	Utilisation Rate (%)	Production (tonnes)	Annual Capacity (tonnes)	Utilisation Rate (%)	Production (tonnes)	8-month Capacity (tonnes)	Utilisation Rate (%)
Stainless steel tubes and pipes	890 <sup>(1)</sup>	3,500 <sup>(3)</sup>	25	989 <sup>(1)</sup>	4,400 <sup>(4)</sup>	23	1,742 <sup>(1)</sup>	4,400 <sup>(4)</sup>	40	922 <sup>(1)</sup>	3,630 <sup>(7)</sup>	25
Stainless steel industrial fasteners, rigging accessories and components	137 <sup>(2)</sup>	300 <sup>(5)</sup>	46	175 <sup>(2)</sup>	300 <sup>(5)</sup>	58	108 <sup>(2)</sup>	300 <sup>(5)</sup>	36	64 <sup>(2)</sup>	200 <sup>(8)</sup>	32
Processed stainless steel sheets and bars	3,142 <sup>(2)</sup>	12,000 <sup>(6)</sup>	26	4,499 <sup>(2)</sup>	12,000 <sup>(6)</sup>	38	6,340 <sup>(2)</sup>	12,000 <sup>(6)</sup>	53	3,999 <sup>(2)</sup>	7,000 <sup>(9)</sup>	57

## Notes:-

- (1) Currently runs one 12-hour shift per day and six days per week.
- (2) Currently runs one 10-hour shift per day and six days per week.
- (3) The annual capacity of our production of stainless steel tubes and pipes is measured based on; (i) the maximum capacity of our six (6) forming machines to form the stainless steel sheets into tubes and pipes per day (ii) the installed capacity as at 31 December 2007 (iii) machinery (including our forming machines) and resources being operational for 24 hours per day and seven days a week.
- (4) The annual capacity of our production of stainless steel tubes and pipes is measured based on; (i) the maximum capacity of our seven (7) forming machines to form the stainless steel sheets into tubes and pipes per day (ii) the installed capacity as at the respective financial years (iii) machinery (including our forming machines) and resources being operational for 24 hours per day and seven days a week.
- (5) The annual capacity of our production of stainless steel industrial fasteners, rigging accessories and components is measured based on; (i) the maximum number of stainless steel rods being sheared to custom sizes by our four (4) blanking machines per day (ii) the installed capacity as at the respective financial years (iii) machinery (including our blanking machines) and resources being operational for 24 hours per day and seven days a week.

**5. INFORMATION ON OUR GROUP (Cont'd)**

- (6) *The annual capacity of our production of processed stainless steel sheets is measured based on; (i) the maximum number of stainless steel sheets/coils being sheared/slitted by our two (2) bandsaw machines per day; ii) the installed capacity as at the respective financial years (iii) machinery (including our bandsaw machines) and resources being operational for 24 hours per day and seven days a week.*
- (7) *The eight (8) months capacity of our production of stainless steel tubes and pipes is measured based on; (i) the maximum capacity of our eleven (11) forming machines to form the stainless steel sheets into tubes and pipes per day (ii) the installed capacity as at 31 August 2010 (iii) machinery (including our forming machines) and resources being operational for 24 hours per day and seven days a week.*
- (8) *The eight (8) months capacity of our production of stainless steel industrial fasteners, rigging accessories and components is measured based on; (i) the maximum number of stainless steel rods being sheared to custom sizes by our four (4) blanking machines per day (ii) the installed capacity as at 31 August 2010 (iii) machinery (including our blanking machines) and resources being operational for 24 hours per day and seven days a week.*
- (9) *The eight (8) months capacity of our production of processed stainless steel sheets is measured based on; (i) the maximum number of stainless steel sheets/coils being sheared/slitted by our two (2) bandsaw machines per day; ii) the installed capacity as at 31 August 2010 (iii) machinery (including our bandsaw machines) and resources being operational for 24 hours per day and seven days a week.*

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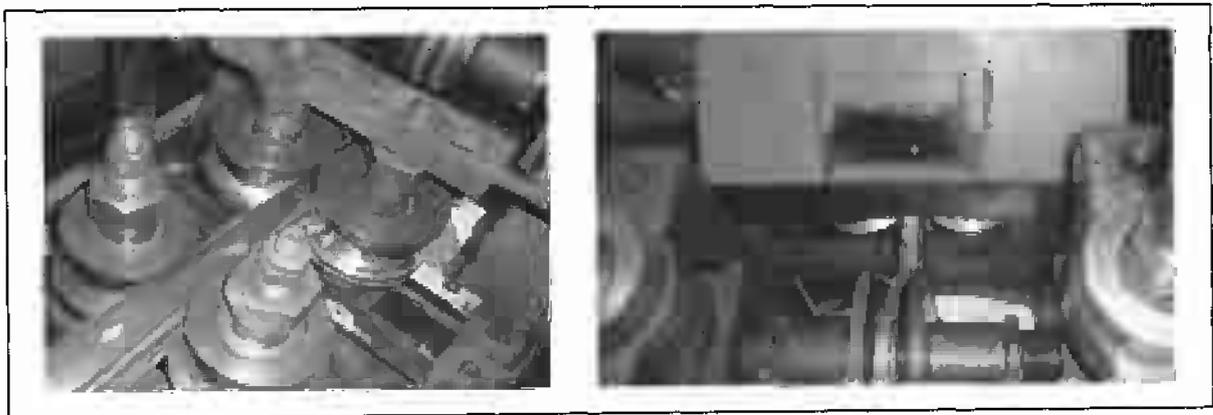
## 5. INFORMATION ON OUR GROUP (Cont'd)

### 5.7.8 Process flow of the business operations of our Group

#### (a) Process Flow for the Manufacturing of Stainless Steel Tubes and Pipes

Stainless steel coils are slit into the required widths in log strips in a slitting machine or slitter. The strips are fed through a series of forming and sizing rollers, which then forms the tube and pipe into the required size and specification before it proceeds to a welding process where the edges or seams are welded together, forming a tubular section.

Our Group uses the gas tungsten arc welding method for its welding process in which a non-consumable tungsten electrode is used to weld the seams or edges of the tubes or pipes. The welded area or seam is protected from atmospheric contamination by a shielding gas, such as argon-hydrogen or oxygen free nitrogen (OFN). These gasses are commonly used in the process of welding stainless steel tubes and pipes.

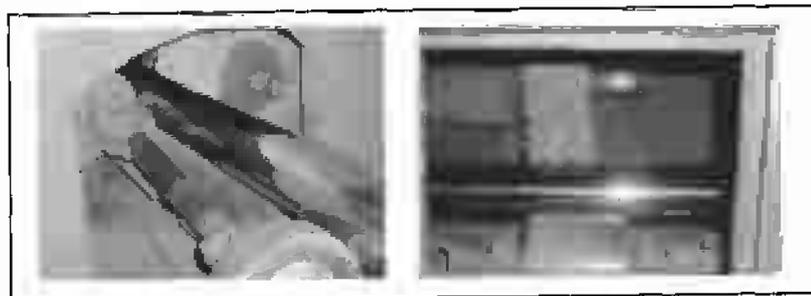


Forming and Welding Process

The welded tube or pipe section then goes through a water-cooling process to cool the pipe or tube prior to the removal of the weld bead. The weld bead is a metal deposit left behind on the welded seam that is the result of the welding process.

The welded stainless steel tubes and pipes then goes through a sizing process where it is fed through a set of rollers to fix the tube and pipe axis, and maximise the roundness of the tubes and pipes. This process also facilitates the attainment of accurate dimensions and straightness tolerances.

The welded tubes and pipes are then cut into specified lengths and are sent for polishing, which is a surface finishing process to remove grinding marks. Polishing is also used to obtain a higher quality finishing such as buffed finishing, by removing fine pits and surface imperfections and generally improve corrosion resistance.



Polishing Process

**5. INFORMATION ON OUR GROUP (Cont'd)**



Sizing

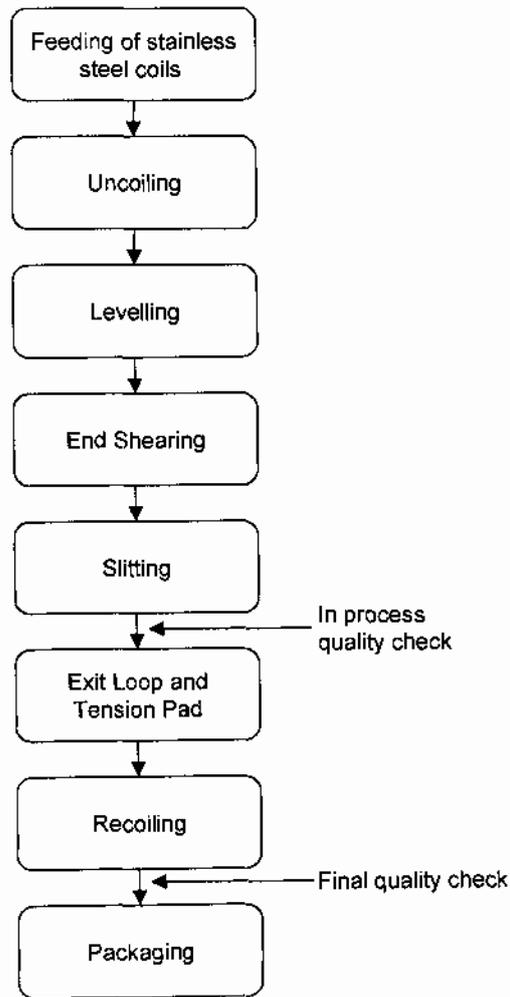
Inspections of tube and pipe products are carried out after the polishing process. The finished products also undergo some in-house testing such as pressure testing, drift expanding testing and various flattening tests to determine the rigidity of the product.

Our Group has the in-house expertise and capabilities to undergo some rework on the tubes and pipes produced. This includes grinding and deburring to remove any raised particles or ragged edges to provide a smooth, quality and aesthetic finishing on our tube and pipe products. After final inspection and testing, the tube and pipe products are then packed for shipment or delivery to customers.

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## 5. INFORMATION ON OUR GROUP (Cont'd)

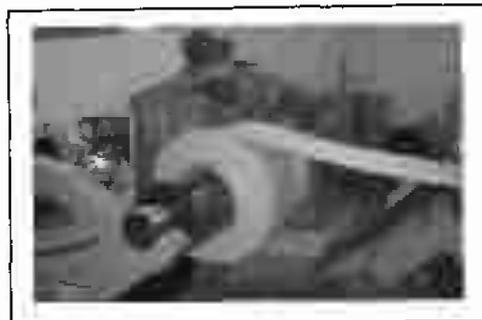
## (b) Process Flow for Stainless Steel Slitting



Slitting is a process of reducing the widths of the steel mother coil to one or a number of narrower widths, called strands or strips. The strand or strip is then recoiled to produce a finished width slit coil of varying widths.

The slitting process begins with a stainless steel mother coil being loaded in the uncoiling unit where the mother coil is unwound, and the uncoiling unit feeds the uncoiled length of metal into the slitting line.

As the coil is unwound it is passed through a set of fixed guides where the mother coil is fed into the slitting head in a controlled manner. The slitting head consists a number of rotary slitting knives and spacers set to produce the finished required size once the material has been passed through them.



Uncoiling Unit

**5. INFORMATION ON OUR GROUP (Cont'd)**

The specifications of the coil to be slitted according to the work order are programmed into the slitting line, and any required mechanical adjustments are made. The specifications of the work are issued based on Job Requirement Sheet, including type of stainless steel, thickness and width.

Once the material has been slit it is recoiled on the finishing mandrel to produce a number of smaller coils. Other options might include cutting the coils into half or more and re-slitting to smaller sizes. The levelled stainless steel coil is passed through the slitting head, where the coil is cut into number of narrower coils as it moves through the slitting head. The slitting head consists of a set of rotating knives.

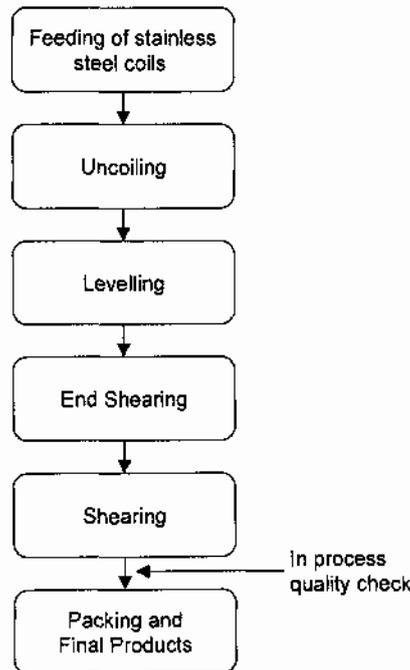


Levelling and Slitting Process

In-process quality control measures are taken throughout the slitting process, these include checking for defects and variations on the slit stainless steel lengths. The strips of metal are then passed through an exit loop. The primary function of the exit loop is to compensate for the slight loosen tension throughout the strip.

The strip is then passed through the tension pad. The tension pad creates the necessary tension on the strip metal for the recoiling unit to pull against the exit loop before the strip is passed through a recoiling unit. The recoiling unit re-winds or recoils the slit stainless steel into coils. The finished coils are then inspected to confirm that it meets with specifications and quality before they packed and transferred for packing before shipment or delivery to customers

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**5. INFORMATION ON OUR GROUP (Cont'd)****(c) Process Flow for Stainless Steel Shearing**

The stainless steel shearing process is where the metal sheet is cut under great force by the blade of a machine. The blade of the machine, which can be altered to yield different angles, is forced down the length of the material.

The shearing process for stainless steel begins with the stainless steel coil being loaded in the uncoiling unit. The coil is unwound and the materials fed into the shearing line.

The specifications are programmed into the shearing line to set-up the machine. The leading edge of the coil feeds into the pinch rolls preceding the leveller. The end of each coil is then sheared as coil ends commonly have irregular shapes and also contain defects such as dents and scratches. After levelling, the sheet metal from the coil is then passed through the shearing machine where it is cut into based on specified lengths.

An in-process quality check and inspection are regularly carried out during the shearing process to minimise defects and variations such as ensuring the cut sheet is in accordance to required specifications. The sheared sheets are then packed before delivery to the customers.

## 5. INFORMATION ON OUR GROUP (Cont'd)

### 5.7.9 Quality assurance

Our Group places significant emphasis on product quality and adheres to stringent quality standards. This is reflected by the fact that both our Group's subsidiaries, PTM and TTH are accredited with ISO 9001:2008 accreditation.

In addition, PTM was certified BS EN 10312 Standard certification in 2008 for our in-house manufactured welded stainless steel tubes and pipes, which is used for water piping applications. In early 2010, PTM was awarded ASTM A554-08A certification for stainless steel tubes and pipes used for ornamental applications.

The following approaches have been adopted by our Group to ensure that certain quality standards are maintained and adhered to:

- We ensure that the raw materials such as stainless steel coils and round bars are free from defects and are accompanied with mill certification, indicating the quality of the raw materials prior to production and processing. This is to ensure that the final products meet the desired requirements.
- Each process for both the manufacturing and processing of secondary stainless steel products have to undergo quality control checking and inspection.
- A sample of our manufactured and processed products have to undergo checking and inspection before delivery to the customer. For example, a sample of our stainless steel tubes and pipes go through pressure tests such as drift expanding test and flattening test to check for defects before final delivery.

As at the LPD, our Group has an experienced quality assurance team of four (4) personnel that are focused on ensuring that the standard of product quality meets the needs and specifications of our customers.

### 5.7.10 Location of Business

We currently operate from the following premise in Malaysia:

Location	Main Function	Approximate Built-up Area	Location of Facilities (Address)
Balakong, Selangor	Head Office, Administration Centre, Trading Office and Manufacturing and Processing Plant	7,580 square metre	Lot 3707, Jalan 7/5, Taman Industri Selesa Jaya, 43300 Balakong.

### 5.7.11 Marketing and distribution

#### (a) Marketing strategies

We adopt the following marketing strategies to sustain our business:

- Position as a one-stop supply centre for secondary stainless steel products supported by our in-house manufacturing and processing capabilities;
- Continually provide excellence in customer service with the aim of developing a long-term business relationship;

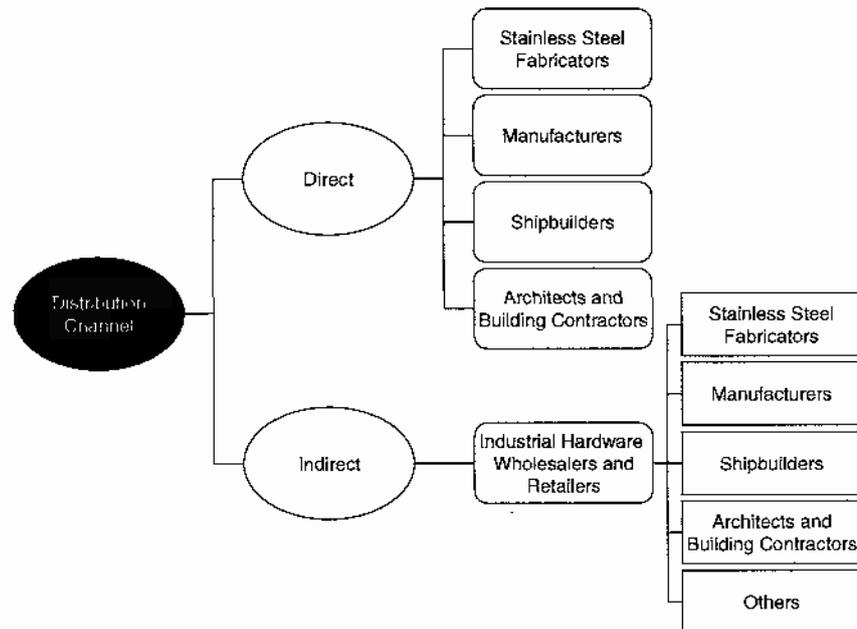
## 5. INFORMATION ON OUR GROUP (Cont'd)

- Continually provide the highest quality of products and services to establish our reliability as a one-stop supply centre, thus creating customer loyalty and dependency; and
- Keeping abreast of new processes and technological development to stay ahead of the competition as well as to better meet the needs and requirements of customers.

As at the LPD, we have fourteen (14) personnel from our sales and marketing team who are focused on business development.

### (b) Distribution Channel Strategy

The distribution channel strategy of our Group is based on both direct and indirect distribution channels to maximise market coverage:



#### (i) Direct Distribution Channel

We adopt a direct distribution channel strategy using our own sales and marketing team to sell products directly to existing and potential customers in view of the following:-

- the need to work closely with our customers to evaluate and attain a better understanding of customers' requirements; and
- the direct sales approach will serve as a feedback mechanism for continuous product and service improvement.

#### (ii) Indirect Distribution Channel

We generally adopt an indirect distribution strategy using intermediaries including industrial hardware wholesalers and retailers as it provides us with easy access to expand our market coverage without the need for significant investment. The intermediaries and retailers would rely on their own distribution network to reach the end-customer.

We have a wide network of active industrial hardware wholesalers and retailers covering the local and overseas markets.

## 5. INFORMATION ON OUR GROUP (Cont'd)

## 5.7.12 Approvals, major licences and permits obtained

Details of major business licenses, permits and approvals applicable to our Group as at LPD are as follows:-

Company	Approving / Issuing Authority	Type of approvals / licences / permits	Date of Issuance / Validity	Equity and other major conditions imposed	Status of compliance
PTM	MITI	Manufacturing License (A 017180) for the manufacturing of "stainless steel, sheets and tubes"	12.02.2009	<ul style="list-style-type: none"> <li>The site Lot 3707 Jalan 7/5 Taman Industri Selesa Jaya 43300 Balakong Selangor Darul Ehsan is subject to the approval from the respective State Government and Department of Environment;</li> <li>The licensed holder shall notify the MITI of any sales of shares in the Company;</li> <li>The licensed holder must provide training to Malaysian citizens to enable the channelling of technology transfer and expertise in all position level; and</li> <li>The company must implement its project as approved and in accordance with laws and regulations in Malaysia</li> </ul>	Complied
KSSI	MITI	Manufacturing Licence (A017339) for the "cut to length stainless steel rod / bar, stainless steel fasteners and related components and slitted/ sheared stainless steel sheets/ strips/ coils"	16.9.2009	<ul style="list-style-type: none"> <li>The site Lot 3707 Jalan 7/5 Taman Industri Selesa Jaya 43300 Balakong Selangor Darul Ehsan is subject to the approval from the respective State Government and Department of Environment;</li> <li>The licensed holder shall notify the MITI of any sales of shares in the Company;</li> <li>The licensed holder must provide training to Malaysian citizens to enable the channelling of technology transfer and expertise in all position level; and</li> <li>The company must implement its project as approved and in accordance with laws and regulations in Malaysia</li> </ul>	Complied

Note:- Pursuant to the Industrial Coordination (Exemption) Order 1976, KSSM is presently not required to have a manufacturing license by MITI.

## **5. INFORMATION ON OUR GROUP (Cont'd)**

### **5.7.13 Brand names, patents, trademarks, licences, technical assistance agreements, franchises, and other intellectual property rights**

Save as disclosed in **Section 6.8.3** of this prospectus, our Group does not have any patents, trademarks, licences, technical assistance agreements, franchises and other intellectual property rights.

### **5.7.14 Dependency on contracts/arrangements**

As at the LPD, there are no contract or arrangement that our Group is highly dependent on that could materially affect our business or profitability.

### **5.7.15 R&D**

Although we do not engage in any material R&D activities, we are involved in internal process improvement and product refinement to meet our customers' specifications for various applications.

Our Group has the in-house facilities to undertake the following tests to determine the performance of the secondary stainless steel products:

- Use eddy current equipment to detect surface breaking cracks, measurement of thickness, detection of thinning due to corrosion and erosion. Eddy currents are induced electrical currents that flow in a circular path, thus any surface defects such as cracks and breaks are detected when they disrupt the path of eddy currents.
- Pressure testing equipment is used to perform drift expanding and flattening tests on stainless steel tubes and pipes. A drift expanding test is performed by expanding the outer diameter of the end of the stainless steel tube and pipes. After the test, the pipe shall be visually examined to determine whether any cracks and breaks occur during the expansion process.
- Flattening test is also performed by flattening the sections of tubes and pipes to check for cracks or breaks during the flattening process.

We did not recognise any expenditure for R&D activities for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 as our R&D activities were mainly related to internal process improvement and product refinement.

### **5.7.16 Interruptions in business**

Our Group has not experienced any material interruption to the business of our Group in the past twelve (12) months preceding the date of this Prospectus.

## 5. INFORMATION ON OUR GROUP (Cont'd)

## 5.7.17 Major customers

The top ten (10) major customers of our Group aggregated over the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 are listed below:-

Name	Country of origin	Nature of business*	Type of products sold	Approximate length of relationship as at LPD (years)	% of the Total Group's Revenue							
					2007		2008		2009		FPE 2010	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sinhony Fish Nets Pte Ltd	Singapore	Industrial hardware wholesaler	Stainless steel rounds bars, stainless steel sheets, galvanised wire ropes and industrial hardware products	5	1,251	1.6	9,088	11.4	5,512	6.9	2,324	4.8
PT. Wisisco Adijaya	Indonesia	Industrial hardware wholesaler	Stainless steel tubes and pipes, stainless steel sheets	6	626	0.8	7,671	9.6	3,513	4.4	14	^
Motor Jaya	Indonesia	Industrial hardware wholesaler	Stainless steel sheets, stainless steel tubes and pipes and industrial hardware products	9	8,466	11.0	5,550	6.9	2,706	3.4	-	-
J.S. Three (S) Pte Ltd	Singapore	Industrial hardware wholesaler	Stainless steel sheets, stainless steel tubes and pipes	5	3,744	4.9	2,023	2.5	1,859	2.3	873	1.8
Perniagaan Baja Keras Sdn Bhd	Malaysia	Shipbuilder	Stainless steel round bars, stainless steel tubes and pipes and industrial hardware products	9	4,906	6.4	2,449	3.1	-	-	786	1.6
EIE Industrial Products Sdn Bhd	Malaysia	Industrial hardware wholesaler	Industrial hardware products	8	1,592	2.3	2,350	2.9	1,983	2.5	425	0.8
Sapor Shipbuilding Sdn Bhd	Malaysia	Shipbuilder	Stainless steel round bars	3	2,416	3.1	1,924	2.4	347	0.4	222	0.5
Pipecco Sdn Bhd	Malaysia	Manufacturer	Stainless steel bars	6	1,613	2.1	1,350	1.7	1,601	2.0	787	1.6
Sum Hup Aluminium Hardware Trading Sdn Bhd	Malaysia	Industrial hardware wholesaler	Stainless steel sheets and bars, stainless steel tubes and pipes	3	629	0.8	632	0.8	2,914	3.6	1,925	4.0
Stainless Steel World LLP	Singapore	Industrial hardware wholesaler	Stainless steel round bars	1	-	-	-	-	3,000	3.7	1,174	2.4

## 5. INFORMATION ON OUR GROUP (Cont'd)

### Note:-

- \* Presently, we sell most of our products to industrial hardware wholesalers and retailers, who service our end-users, amongst others, manufacturers, stainless steel fabricators, shipbuilders, architects and building contractors. However, we also sell our products directly to end user industries.
- ^ Negligible.

The general fluctuation in sales for each customer for the financial years under review is due to the fact that we are not dependent on any particular customer for sales, given our wide and active customer base of approximately 1,000 customers covering Malaysia and five (5) other countries as disclosed in **Section 5.7.1(d)** of this Prospectus. As at the LPD, we served approximately 70% of our active customers (of approximately 1,000 customers) through the indirect distribution channel with the balance of our customers served via the direct distribution channel.

The demand for our secondary stainless steel products and industrial hardware is dependent on the general level of economic activity and the growth of our target markets. As we service manufacturers, stainless steel fabricators, shipbuilders, architects and building contractors and industrial hardware wholesalers and retailers, any downturn affecting these markets will result in a corresponding decline in the demand for the Group's products. We believe that some of our major customers perform works on a project basis. Under such circumstances, sales to these major customers may decrease upon completion of the relevant projects or increase upon commencement and during the tenure of a project.

### 5.7.18 Major suppliers

Our Group's top ten (10) major suppliers aggregated over the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 are listed below:-

Name	Type of materials supplied	Country of origin	Length of relationship as at LPD (years)	% of the total Group's Purchases							
				2007		2008		2009		FPE 2010	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%
Super Yee Trading	Industrial hardware	Malaysia	10	4,440	7.2	4,781	7.7	8,071	13.0	5,130	12.7
Thainox Stainless Public Co. Ltd ("Thainox")	Stainless steel coils	Thailand	5	10,162	16.5	9,237	14.9	128	0.2	-	-
SK Networks Co Ltd	Stainless steel coils	Korea	7	4,938	8.0	4,837	7.8	6,626	10.6	2,836	7.0
Ningbo Baoxin Stainless Steel Co Ltd ("Ningbo")	Stainless steel coils	China	3	3,538	5.8	6,838	11.1	3,774	6.1	-	-
Chung Yih Steel Sdn Bhd	Stainless steel bars	Malaysia	6	4,274	7.0	3,987	6.5	3,606	5.8	1,842	4.6
Acciaierie Valruna S.P.A	Stainless steel bars	Italy	5	3,624	5.9	4,236	6.9	2,036	3.3	533	1.3
Yee Hing Trading	Industrial hardware	Malaysia	6	3,205	5.2	3,692	6.0	1,468	2.4	1,058	2.6
Metal Networks Pte. Ltd	Stainless steel bars	India	5	1,694	2.8	1,367	2.2	1,365	2.2	2,768	6.9
An Mar Co., Ltd ("An Mar")	Stainless steel sheets	Taiwan	1	-	-	-	-	2,044	3.3	4,368	10.9
Caneworld Enterprise	Industrial hardware	Malaysia	5	1,426	2.3	883	1.4	1,464	2.4	1,160	2.9

In general, the purchases from our existing suppliers increases (such as An Mar) or decreases (such as Thainox and Ningbo) in any one (1) financial year/period as we procure our raw materials based on the pricing, availability/lead time for delivery and quality of the raw materials with the intention of broadening our base of suppliers. Hence, we are not overly dependent on any particular supplier and believe that we can easily source our raw material from alternative suppliers, if required.

Please refer to **Section 6.6** of this Prospectus for further details on the supply conditions of our industry.

**5. INFORMATION ON OUR GROUP (Cont'd)****5.8 MATERIAL PROPERTIES, PLANT AND EQUIPMENT****5.8.1 Information on properties**

Our Group currently owns the following properties:-

Registered Owner(s)	Location*	Description / Existing Use	Tenure of Land	Land Area/ Built-up Area	Issuance date of Certificate of Fitness	Net book value as at 31 August 2010 (RM'000)
KSSC	Lot 3707, Jalan 7/5, Taman Industri Selesa Jaya, 43300 Balakong Selangor Darul Ehsan	Double storey office cum factory / Administration and Trading Office and Manufacturing and Processing Plant	Freehold	14,796 square metres / 7,580 square metres	10 September 2003	6,953
KSSC	102 and 102A, Jalan Keris Taman Sri Tebrau, 80050 Johor Bahru, Johor Darul Takzim	Double storey shophouses / For rental income purposes	Freehold	163,509 square metre / 237,832 square metres	9 January 1977	87
KSSI	Geran 129558, Lot 11431, Mukim Setul, Daerah Seremban, Negeri Sembilan Darul Khusus. The vacant land is situated along Jalan Permata in Arab-Malaysian Industrial Park, Seremban, Negeri Sembilan Darul Khusus.	Vacant industrial land	Freehold	443,485 square metres	Not applicable	3,985

**Note:-**

\* The Listing Scheme does not involve any revaluation of the above-mentioned properties.

As at the LPD, our group does not lease any properties.

As at 31 August 2010, the net book value of our fixed assets comprised mainly freehold land and building of RM11.03 million.

## 5. INFORMATION ON OUR GROUP (Cont'd)

### Acquisitions of properties during the two (2) years preceding the date of this prospectus

There were no properties acquired by our Group during the last two (2) years preceding the date of this Prospectus.

### 5.8.2 Information on material plant and equipment

The material plant and equipment of our Group as at the Prospectus are set out below:-

Machinerles /Equipments	Units	Net Book Value as at 31 August 2010 (RM)
Dual-Cylinder Bed Punching Machine	3	223,087
Solid VHF Induction Heating Power	1	30,713
Vibration Grinding Machine	1	11,749
Thread Machine	4	98,157
Flat Bar Leveller Machine	1	26,112
Lathe Machine	5	15,530
Power Press Machine (Shackle)	2	61,621
Spot Welding Machine (Shackle)	1	23,333
Forklift	4	19,766
Overhead Crane	5	172,435
Shearing Machine	1	206,009
Slitting Auto Line	1	206,789
Pipe Rolling Machine	11	2,496,740
Dust Collector System	2	108,400
Eddy Current Tester	2	43,687
Polishing Machine	6	694,566
Welding Machine	11	140,354
Cutting Machine	4	54,740
Other machinerles and equipment	*264	476,927
<b>Total</b>		<b>5,014,656</b>

*Note:-*

\* *Include amongst others, bandsaws, PVC laminate machines, industrial fastener moulds, bar code printing, lathe, scaling, grinding and milling machines.*

Save as disclosed above, none of our machinerles and equipment are individually material to be disclosed separately.

Our Board is of the opinion that our Group has sufficient capacity to meet the current and anticipated level of demand for our products and will continue to monitor the capacity requirements to ensure that our Group's operations run smoothly. The production capacity of our manufacturing and processing facilities is disclosed in Section 5.7.7 of this Prospectus.

## 5. INFORMATION ON OUR GROUP (Cont'd)

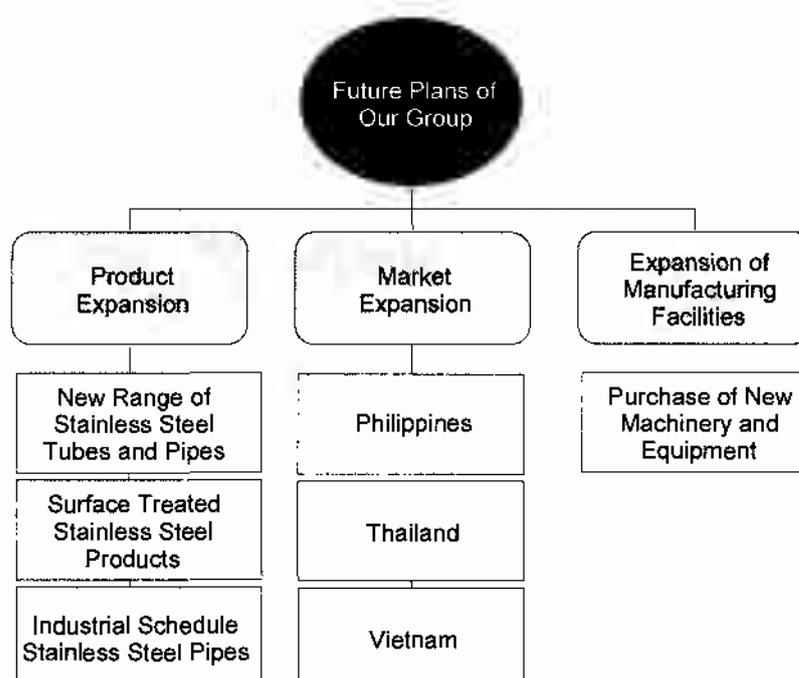
### 5.8.3 Regulatory requirement and environmental issue

Our Board believes that we are in compliance in respect of all regulatory requirements and environmental issues which may materially affect our Group's operations and/or utilisation of our assets. As at the LPD, our Group is not aware of any environmental proceedings or investigations to which we are or might become a party to.

## 5.9 FUTURE PLANS, STRATEGIES AND PROSPECTS

### 5.9.1 Future plans and strategies

The future plans of our Group are focused in the following key areas as depicted below:



#### (a) Product Expansion

Our Group intends to focus on expanding our business with the following product expansion plans:-

##### (i) New range of stainless steel tubes and pipes

As part of our Group's product development plans, we plan to introduce new sizes of stainless steel tubes and pipes to cater for various applications in the automotive industry including mirror brackets, exhaust systems, grab bars, fender brackets and luggage racks, as well as fuel oil piping systems.

Our Group intends to commercialise the new range of stainless steel tubes and pipes by the middle of 2011.

**5. INFORMATION ON OUR GROUP (Cont'd)****(ii) Surface Treated Stainless Steel Products**

As disclosed in **Section 3.9** of this Prospectus, our Group has earmarked part of the proceeds from the Public Issue to purchase new machineries and equipment for the development and production of surface treated stainless steel products.

The new machineries and equipment will enable our Group to utilise the following technologies for our surface treated products:

- Photolithography to transfer the intended geometric patterns onto the piece of stainless steel; and
- Electrolytic etching to carve geometric patterns.

The new surface treated stainless steel products are targeted for building and construction applications such as residential homes and commercial offices. Our Group plans to produce and commercialise the surface treated stainless steel products by the middle of 2011.

**(iii) Industrial Schedule Stainless Steel Tubes and Pipes**

With the proceeds from the Public Issue as disclosed in **Section 3.9** of this Prospectus, our Group plans to invest in new machinery and equipment for the development and production of industrial schedule stainless steel pipes.

The industrial schedule stainless steel tubes and pipes will be used primarily in the transportation of palm oil, gas and water, which is presently widely used in the residential and industrial areas as well as the palm oil refinery industry in view of its corrosion and erosion free characteristics.

The production of industrial schedule stainless steel tubes and pipes will create opportunities for our Group to cross sell our products to existing and potential customers. Our Group intends to commence the production of industrial schedule stainless steel tubes and pipes by the end of 2011.

**(b) Market Expansion**

For the eight (8) months FPE 31 August 2010, our Group's exports constituted 18.38% of our Group's total revenue. Our Group's current export markets include Singapore, Indonesia, Papua New Guinea, United Kingdom and Brunei.

We intend to expand our market coverage by exporting to Thailand, Vietnam and Philippines. For these overseas markets, we intend to utilise an indirect distribution strategy using industrial hardware wholesalers and retailers in the respective countries. These industrial hardware wholesalers and retailers will provide us with easy access to the local markets without incurring any substantial distribution, selling and marketing costs.

We intend to increase our sales and marketing efforts to service these new markets with a view of widening our customer base. We have started our sales and marketing initiatives in these new markets, and expect revenue contribution to follow within the next one (1) to two (2) years.

**5. INFORMATION ON OUR GROUP (Cont'd)**

**(c) Expansion of Manufacturing Facilities**

Our Group intends to invest in new machinery and equipment for our business operations as disclosed in **Section 3.9** and **Section 5.9(a)** of this Prospectus. The new machinery and equipment will be housed in our current premise and will be used to cater for our market expansion and future business growth including the development of a new range of products, namely surface treated stainless steel products and industrial schedule stainless steel tubes and pipes.

In addition, our Group also intends to purchase fully-automated machineries and equipment for the manufacturing of stainless steel industrial fasteners and components as our current machineries are semi-automated. The new machineries and equipment will be funded using cash from our existing operations.

**5.9.2 Prospects**

Premised on our future plans and strategies as highlighted above, our key competitive strengths as highlighted in **Section 5.7.1(d)** and the prospects and the outlook of the industry as set out in **Section 6** of this Prospectus, our Board is of the view that our Group will enjoy positive growth and favourable prospects in the long-term.

We will continue to leverage on our core competencies whilst exercising prudent management in pursuing growth opportunities.

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## 6. INDUSTRY OVERVIEW AND OUTLOOK

### 6.1 OVERVIEW OF THE MALAYSIAN ECONOMY

The Malaysian economy registered a growth of 5.3% in the third quarter of 2010, driven by domestic demand amid slowing external demand. The expansion in domestic demand was supported by private sector spending. The slowdown in the global economy has led to the moderation in external demand. On the supply side, all major economic sectors, except mining, continued to expand during the quarter, but at a more moderate pace.

Domestic demand expanded by 5% in the third quarter (2Q 10: 9%) led by a sustained expansion in both private consumption and capital spending. Private consumption recorded a growth of 7.1% (2Q 10: 7.9%) supported by favourable labour market conditions and positive consumer confidence. Public consumption declined by 10.2% (2Q 10: 6.9%) as a result of lower government spending on supplies and services. Gross fixed capital formation expanded by 9.8% (2Q 10: 12.9%) driven by capital expenditure from the private sector. Private sector capital spending was supported by the expansion in domestic production amidst high levels of capacity utilisation and positive business sentiments.

On the supply side, major economic sectors, except mining, expanded further but at a more moderate pace. Growth in the manufacturing sector moderated to 7.5% (2Q 10: 16.0%), reflecting mainly the slower growth in external demand. The services sector remained resilient, growing at 5.4% (2Q 10: 7.3%), benefiting from favourable domestic demand conditions. The construction sector expanded by 2.8% (2Q 10: 4.1%), supported by growth in the non-residential and civil engineering sub-sectors. Growth in the agriculture sector increased to 2.7% (2Q 10: 2.4%), following higher production of crude palm oil and rubber. However, the mining sector recorded a contraction of 1.0% (2Q 10: 1.1 %), as the lower production of crude oil offset the higher production of natural gas.

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), increased to 1.9% on an annual basis in the third quarter (2Q 10: 1.6%). The increase in consumer prices was attributable mainly to the rise of prices of food and non-alcoholic beverages (3Q 10: 2.9%, 2Q 10: 2.4%).

In the external sector, the trade surplus narrowed further to RM22.3 billion (2Q 10: RM23.4 billion) in the third quarter. Both gross exports and imports increased at a more moderate pace of 10.4% and 16.5% respectively (2Q 10: 21.7% and 30.3% respectively), in line with the weaker external environment. The slower growth in gross exports was due mainly to the lower exports of manufactured products, reflecting the softening global demand for E&E products, particularly semiconductors. The moderation in gross imports was reflected in the intermediate imports, which increased at a slower pace, in tandem with the moderation in manufactured exports. Capital imports expanded strongly, supported by continued public and business investment spending, while consumption imports expanded at a modest pace. The imports of primary food and beverages as well as motor vehicles, however, remained strong, reflecting positive consumer sentiments.

On a cash basis, gross inflows of foreign direct investment ("FDI")\* were higher at RM8.9 billion in the third quarter (2Q 10: +RM5.3 billion), reflecting mainly larger inflows of equity capital and the drawdown of inter-company loans. After adjusting for gross outflows due to repayment of inter-company loans, net FDI more than doubled to RM5.0 billion (2Q 10: +RM2.4 billion). Direct investment abroad ("DIA")\* by Malaysian companies recorded a larger net outflow of RM4.9 billion (2Q 10: -RM3.1 billion) arising from both higher equity capital and net extensions of inter-company loans to subsidiaries abroad. Portfolio investment registered a larger net inflow of RM9.3 billion (2Q 10: +RM6.3 billion), reflecting strong foreign interests in domestic capital markets during the quarter, particularly the equity market. The inflows of portfolio funds continued to be driven by the favourable growth prospects for the Malaysian economy amidst a strengthening of the ringgit.

**6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)**

The international reserves of Bank Negara Malaysia amounted to RM310.8 billion (equivalent to USD100.7 billion) as at 30 September 2010. This level of reserves has taken into account the quarterly adjustment for foreign exchange revaluation loss, following the strengthening of the ringgit against most major currencies during the quarter. As at 15 November 2010, the reserves position amounted to RM326.5 billion (equivalent to USD105.8 billion), sufficient to finance 8.8 months of retained imports and is 4.0 times the short-term external debt.

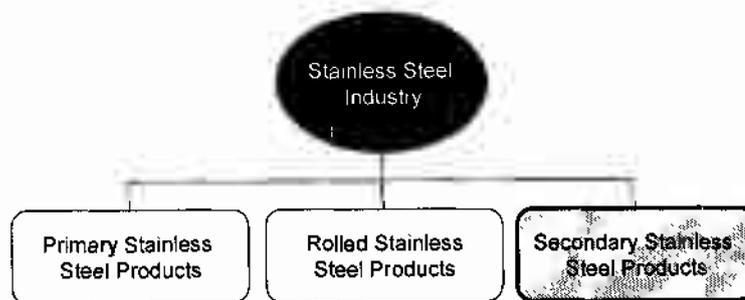
*Note:-*

\* *The statistics for FDI and DIA on a cash basis does not include retained earnings.*

*(Source: Economic and Financial Developments in Malaysia in the Third Quarter of 2010, Bank Negara Malaysia)*

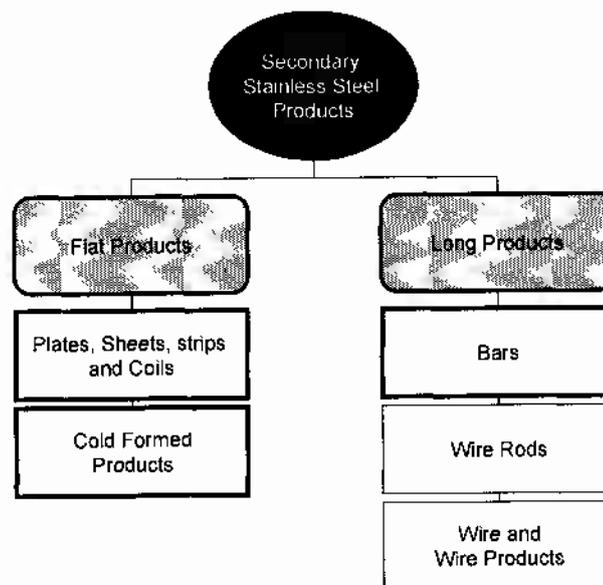
**6.2 OVERVIEW OF THE STAINLESS STEEL INDUSTRY**

The Stainless Steel Industry in Malaysia can be broadly segmented as shown below:-



Our Group’s principal business activities are in the manufacturing and processing of secondary stainless steel products, which are classified under the umbrella of the stainless steel industry.

The market for secondary stainless steel products can be further segmented into flat products and long products as set out below:-



 *Types of Stainless Steel Products manufactured or processed by K Seng Seng Group*

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

### (a) Secondary Stainless Steel Flat Products

The secondary stainless steel flat products utilise rolled and finished flat products such as cold-rolled and hot-rolled coils, sheets, and plates to produce a wide variety of secondary stainless steel products. Examples of secondary stainless steel flat products include:

- (a) Plates, sheets and coils;
- (b) Cold formed products.

Cold formed products are commonly manufactured using plates, coils or sheets through various processes. These processes include roll forming, blanking, bending, piercing, coining, embossing, pressing, flow forming and others. Some of the cold-formed products include, among others, tubes and pipes, channels, angles, rings, light gauge sections and columns.

Our Group is currently involved in the manufacture of welded stainless steel tubes and pipes using continuous roll forming and welding processes. The stainless steel tubes and pipes manufactured by our Group are used in various applications, including ornamental applications (such as grilles, gates, window frames and doorframes, railing systems), automotive applications (such as bull bars and grille guards) water and sanitary piping for buildings and water filter equipment.

Our Group is also involved in the processing of secondary stainless steel flat products including slitting and shearing of hot-rolled or cold-rolled coils to specified dimensions for further processing or manufacturing.

### (b) Secondary Stainless Steel Long Products

Secondary stainless steel long products are manufactured or processed from rolled and finished long products such as bars and wire rods. The common secondary stainless steel long products include:

- (a) Bars
- (b) Wire rods
- (c) Wire and wire products (such as welded mesh, fencing, netting, bolts and nuts, screws, etc).

Bars are commonly formed into a straight length blank from billets. It can be in various shapes such as round, square, hexagon, octagon or flat. Bars are usually required for further processing and manufacturing or machining into finished products, such as industrial and automotive shafts, industrial fasteners (such as bolts and studs, shackles and U-bolts), anchor link chain, and furniture.

Our Group also processes secondary long products, including round bars, flats and angles. This process primarily involves cutting of stainless steel bars into specified length for subsequent processing. The Group has the capabilities to process round bars with a diameter of up to 305 mm.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

### 6.3 FUTURE GROWTH

#### 6.3.1 Outlook of the Stainless Steel Industry in Malaysia

An improving economy will provide opportunities for operators within the Stainless Steel Industry. Economic conditions in Malaysia in 2010 has shown to be better than 2009 as indicated below:

- While real GDP for 2009 was -1.7%, real GDP for 2010 is projected to grow by an estimated 7.0%. The real GDP is forecasted to grow between 5.0% and 6.0% in 2011.

Growth trends of the Stainless Steel Industry in 2010 also indicate a positive outlook for the industry:

- For the first seven months of 2010, imports of stainless steel grew by 243.9% to RM2.6 billion compared to the same period in 2009;
- For the first seven months of 2010, exports of stainless steel recorded a growth of 85.6% to RM553.4 million compared to the same period in 2009.

In addition, the industry outlook will also be dependent on its major user industries:

- Real GDP in the manufacturing sector is estimated to grow by 10.8% in 2010 and forecasted to grow by 6.7% in 2011;

Real GDP in of the construction sector is estimated to grow by 4.9% in 2010 and forecasted to grow by 4.4% in 2011;

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

#### 6.3.2 Drivers of Growth

Some of the drivers of growth for the Stainless Steel Industry are as follows:

- **Growth of end-user industries** including, among others, shipbuilding, building and construction, automotive, process equipment, manufacturing, general industrial and consumer sectors. The diversity and growth within these user industries will provide the impetus for growth in the Stainless Steel Industry in Malaysia.
- **Growth in export market** will also help drive demand for stainless steel products including stainless steel tubes and pipes, and slitted and sheared stainless steel sheets. Although there are no primary and rolling/finished stainless steel producers within Malaysia, nevertheless Malaysia has demonstrated that it is able to value add and export stainless steel products.
- **Social-economic growth** such as the growth of the economy and population are likely to create demand for stainless steel by increasing demand for stainless steel products (particularly vehicles, electrical and electronics products and domestic appliances), and by spurring development of industrial, commercial and residential facilities and infrastructure that utilise stainless steel.
- **Increasing consumer affluence** in terms of an increase in Gross National Product per capita and disposable income will also contribute to the increasing usage of stainless steel products that cater to the consumer market. Hence, this will generate demand for intermediate materials such as stainless steel tubes and pipes, and stainless steel sheets.

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

- **Innovation and development of new applications** would create new demand from existing or new users. The ongoing development of stainless steel as a substitute for other materials will provide growth for the stainless steel industry, due to its properties such as resistance to corrosion and high mechanical strength.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

### 6.4 INDUSTRY PLAYERS AND COMPETITION

#### 6.4.1 Competitive Nature

In general, operators in the stainless steel industry face normal competitive conditions which is similar to a free enterprise environment where there are no undue government regulations or licensing requirements, there are many operators, operators may enter and leave the industry with relative ease, and no one operator is large enough to dictate product pricing. In such an environment, the industry is also subjected to normal supply and demand conditions moderated by the price mechanism. Operators compete on product and service differentiations, and other factors of competition.

#### 6.4.2 Factors of Competition

As with most free enterprise environments, competition is based on a number of factors, which includes the following:-

- (a) **Quality of Products and Services:** As stainless steel tubes and pipes and stainless steel sheets are the key materials used in the production of a diverse range of finished products and applications, quality is an important factor. For example, stainless steel tubes and pipes are further fabricated into grilles, windows and doors, railing systems and stainless steel sheets are further fabricated into industrial products such as storage tanks, pressure vessels, process equipment and others. As such, the quality of these materials will also impact on the quality of the finished products. Manufacturers with stringent quality assurance programmes and certifications in place with in-house quality tests and inspections are in a stronger position to compete effectively and win new customers.  
  
The ISO 9001 certifications of our Group's subsidiaries, PTM and TTH are endorsements of the quality assurance system that is in place for the manufacturing and processing of stainless steel products. These certifications provide customers with the assurance of our Group's quality
- (b) **Established track record and market reputation:** Our Group started in the 1980s and over the years has established itself as a player in the Stainless Steel Industry in Malaysia. We have established a good reputation as a manufacturer of secondary stainless steel products, namely tubes, pipes, industrial fasteners, rigging accessories and components, and processor of stainless steel sheets, round bars, flats and angles. Manufacturers with an established and proven track record are in a stronger position to compete effectively and more importantly secure sales orders.
- (c) **Wide range of products:** We have the capabilities to manufacture a range of stainless steel tubes and pipes, and process different sizes of secondary stainless steel products such as stainless steel sheets, round bars, flats and angles. In addition, we also distribute and trade approximately 10,000 active stock keeping unit ("SKU") of industrial hardware including marine hardware and consumables and general hardware.

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

The extensive portfolio of products supplied by our Group enables us to promptly deliver a range of products to meet the demands of customers. Companies that are able to quickly fulfil orders will be in a better position to compete with others who have a limited range of products.

- (d) **Manufacturing capabilities and capacities:** Manufacturing of stainless steel tubes and pipes and processing of stainless steel sheets requires a certain level of technical skills and knowledge, which include production and finishing techniques and skill in handling and calibrating processing equipment to achieve maximum production efficiency. From that perspective, our Group is equipped with in-house auto slitting and shearing machines for processing stainless steel sheets, and on-line forming and welding, and polishing machines for the manufacturing of stainless steel tubes and pipes. All these production facilities enable us to meet customers' requirements and specifications as well as provide a faster turnaround as all processes are undertaken in-house.

For the FYE 31 December 2009, our Group's total annual manufacturing capacities were 4,400 tonnes for stainless steel tubes and pipes, 300 tonnes for stainless steel industrial fasteners and components, and 12,000 tonnes of stainless steel sheets.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

### 6.4.3 Players in the Industry

#### Manufacturers of Stainless Steel Tubes and Pipes

Some of the manufacturers of stainless steel tubes and pipes in Malaysia listed in alphabetical order include Alumtan Union Metal Sdn Bhd, Amaigamated Industrial Stainless Steel (1987) Sdn Bhd, Hoto Stainless Steel Industries Sdn Bhd, **K Seng Seng Group (through its subsidiary PTM Steel Industry Sdn Bhd)**, Kanzen Tetsu Sdn Bhd, Prestar Precision Tubes Sdn Bhd, Shunto Steel Industries Sdn Bhd, Syarikat Jaya Tugas Industri Sdn Bhd, Taik Bee Hardware Sdn Bhd, Tatt Giap Steel Centre Sdn Bhd and TSA Pipes Manufacturing Sdn Bhd.

#### Stainless Steel Processing Centres

Some of the stainless steel processing centres in Malaysia listed in alphabetical order include Alumtan Union Metal Sdn Bhd, Anshin Steel Processor Sdn Bhd (formerly known as Acsan Steel Service Centre Sdn Bhd), Anshin Steel Service Centre Sdn Bhd, CFB Okura Service Centre Sdn Bhd, Choo Bee Metal Industries Berhad, Japmas Steel Sdn Bhd, JFE Shoji Steel (M) Sdn Bhd (previously known as Kawasho Steel Processing Centre Sdn Bhd), **K Seng Seng Group (through its subsidiary PTM Steel Industry Sdn Bhd)**, Northern Steel Centre Sdn Bhd, OYL Steel Centre Sdn Bhd, POSCO - MKPC Sdn Bhd (formerly known as Posmmit Steel Centre Sdn Bhd), Prestar Precision Tubes Sdn Bhd, Shunto Steel Industries Sdn Bhd, SMPC Industries Sdn Bhd, Sumiputeh Steel Centre Sdn Bhd, Syarikat Jaya Tugas Industri Sdn Bhd, Tashin Steel Sdn Bhd, Tatt Giap Steel Centre Sdn Bhd, Topsteel Services Sdn Bhd, VPN Marketing (M) Sdn Bhd and Yick Hoe Metal Industries Sdn Bhd.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

**6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)****Some of the industry players listed on Bursa Securities**

The revenue of some of the industry players listed on Bursa Securities are as follows:-

	Principal activities	Revenue RM'000
FACB Industries Incorporated Berhad ("FACB")	Manufacture and sale of stainless steel welded pipes, butt-weld fittings and carbon steel pipes, and wholesale dealership of mattresses, furniture and related accessories.	<sup>(1)</sup> 218,094
Choo Bee Metal Industrial Berhad ("CBMI")	Processing of steel coils into steel products and fabrication of steel products, and trading of hardware products.	<sup>(2)</sup> 404,418
Tatt Giap Group Berhad ("TGGB")	Steel processing, steel distribution activities and manufacturing of stainless steel tubes and pipes and Electro galvanising steel coils.	<sup>(2)</sup> 225,368

**Notes:-**

The above is not an exhaustive list, and the companies may not be directly comparable to KSSC.

(1) For the FYE 30 June 2010.

(2) For the FYE 31 December 2009.

(Source: TGGB's prospectus and annual reports of FACB and CBMI)

The revenues quoted above are for total group revenues which may include revenues from other business activities which are not comparable to our Group.

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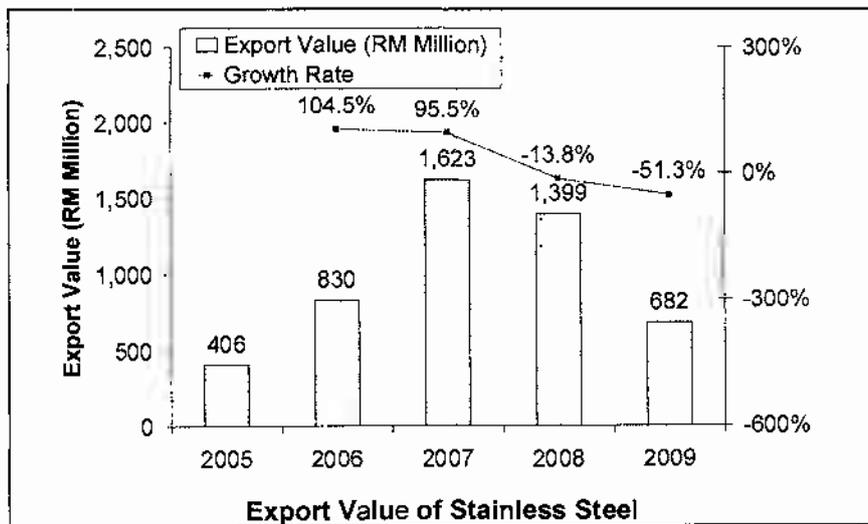
## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

### 6.5 DEMAND CONDITIONS

There are no statistics available specifically for the local production of stainless steel tubes and pipes, and other secondary stainless steel products (such as stainless steel sheets, stainless steel round bars, flats and angles) in Malaysia. As such, import and export statistics will be used as proxy for the performance of the industry.

#### Exports

The export value of stainless steel in Malaysia for the past five (5) years are as follows:-



Between 2005 and 2009, the export value of stainless steel registered an average annual growth rate of 13.8%. In 2009, the export value of stainless steel decreased by 51.3% to RM681.8 million. In 2009, Thailand was one of the major export destination countries for stainless steel, which represented 27% of total export value of this category. This was followed by Singapore, India, Indonesia, Hong Kong, Vietnam, Australia, China, Philippines and others.

For the first seven months of 2010, the export value of stainless steel increased by 85.6% to RM553.4 million compared to the same period in 2009.

Between 2005 and 2009, the export value of other welded, of circular cross section, of stainless steel decreased at an average annual rate of 9.1%. In 2009, the export value of other welded, of circular cross section, of stainless steel declined by 59.4% to RM66.7 million. In 2009, United States was one of the major export destination countries for this category, which represented 53% of total export value of this category. This was followed by the United Kingdom, Indonesia, Australia, India, Singapore, Sri Lanka, Vietnam and others.

For the first seven months of 2010, the export value of other welded, of circular cross section, of stainless steel increased by 19.9% to RM46.1 million compared to the same period in 2009.

Between 2005 and 2009, the export value of other welded, of non-circular cross section increased at an average annual rate of 44.3%. In 2009, the export value of other welded, of non-circular cross section decreased by 15.7% to RM218.5 million. In 2009, Singapore was one of the major export destination countries for this category, which represented 53% of total export value of this category. This was followed by Australia, Papua New Guinea, New Zealand, United States and others.

For the first seven months of 2010, the export value of other welded, of non-circular cross section decreased by 44.0% to RM77.0 million compared to the same period in 2009.

Between 2005 and 2009, the export value of flat-rolled products, of all widths (including stainless steel coils, sheets, plates, hoops and strips) increased at an average annual rate of 14.4%. In 2009, the export value of this category decreased by 45.9% to RM570.0 million.

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

For the first seven months of 2010, the export value of flat-rolled products, of all widths (including stainless steel coils, sheets, plates, hoops and strips) increased by 106.4% to RM483.4 million compared to the same period in 2009.

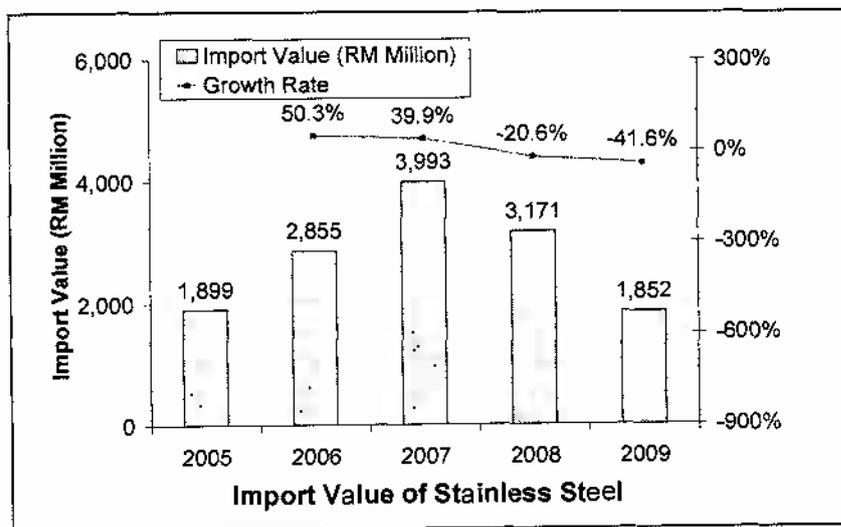
(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)

### 6.6 SUPPLY CONDITIONS

#### 6.6.1 Supply

There are no statistics available specifically for the local production of stainless steel tubes and pipes, and other secondary stainless steel products (such as stainless steel sheets, stainless steel round bars, flats and angles) in Malaysia. As such, import and export statistics will be used as proxy for the performance of the industry.

The import value of the stainless steel in Malaysia for the past five (5) years are as follows:-



Between 2005 and 2009, the import value of stainless steel decreased at an average annual rate of 0.6%. In 2009, the import value of stainless steel declined by 41.6% to RM1.9 billion. In 2009, South Africa was the major source of imports of stainless steel, which accounted for 29% of total imports under this category. Some of the other major import countries include Taiwan, Japan, Korea, Spain, China, United States, India and others. For the first seven months of 2010, the import value of stainless steel increased by 243.9% to RM2.6 billion compared to the same period in 2009.

In 2009, the import value of flat-rolled products, of stainless steel of all widths (including stainless steel coils, sheets, plates, hoops and strips) decreased by 40.8% to RM1.6 billion. Of this, the value of the sub-sectors under this category is as follows:

- In 2009, the import value of flat-rolled products, of stainless steel, of a width of 600mm or more (a sub-sector of flat-rolled products, of stainless steel of all widths) decreased by 41.6% to RM1.5 billion. Within this sub-sector, the import value of flat-rolled products of stainless steel, hot-rolled, not in coils (a sub-sector of flat-rolled products, of stainless steel, of a width of 600mm or more) decreased by 64.5% to RM211.4 million in the same year.
- In 2009, the import value of flat-rolled products, of stainless steel, of a width of less than 600mm (a sub-sector of flat-rolled products, of stainless steel of all widths) decreased by 30.4% to RM131.6 million.

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

For the first seven months of 2010, the import value of flat-rolled products, of stainless steel of all widths (including stainless steel coils, sheets, plates, hoops and strips) increased by 272.4% to RM2.4 billion. Of this, the value of the sub-sectors under this category is as follows:

- During the first seven months of 2010, the import value of flat rolled products, of stainless steel, of a width of 600mm or more (a sub-sector of flat-rolled products, of stainless steel of all widths) increased by 298.5% to RM2.3 billion compared to the same period in 2009. Within this sub-sector, the import value of flat-rolled products of stainless steel, hot-rolled, not in coils (a sub-sector of flat-rolled products, of stainless steel, of a width of 600mm or more) grew by 131.3% to RM255.2 million during the same period.
- During the first seven months of 2010, the import value of flat-rolled products, of stainless steel, of a width of less than 600mm (a sub-sector of flat-rolled products, of stainless steel of all widths) increased by 62.1% to RM114.1 million compared to the same period in 2009.

Between 2005 and 2009, the import value of other welded, of circular cross section of stainless steel (including stainless steel tubes and pipes) increased at an average annual rate of 24.2%. In 2009, the import value of this category decreased by 38.1% to reach RM49.5 million. For the first seven months of 2010, the import value of other welded, of circular cross section of stainless steel (including stainless steel tubes and pipes) declined by 61.4% to RM12.4 million compared to the same period in 2009.

Between 2005 and 2009, the import value of other welded, of non-circular cross section (including stainless steel tubes and pipes) decreased at an average annual rate of 11.0%. In 2009, the import value of this category increased by 102.7% to RM12.5 million. For the first seven months of 2010, the import value of other welded, of non-circular cross section (including stainless steel tubes and pipes) increased by 7.5% to RM9.1 million compared to the same period in 2009.

Between 2005 and 2009, the import value of other bars and rods of stainless steel, angles, shapes and sections of stainless steel decreased at an average annual rate of 1.0%. In 2009, the import value of this category declined by 54.1% to RM138.0 million. For the first seven months of 2010, the import value of other bars and rods of stainless steel, angles, shapes and sections of stainless steel increased by 68.0% to RM119.2 million compared to the same period in 2009.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

### 6.6.2 Supply Dependencies

As at end October 2010, there are currently no producers of primary stainless steel products (such as billets, blooms, ingots and slabs) in Malaysia. As a result, all domestic demand for primary stainless steel products is currently satisfied by imports.

Similarly, there are no producers of rolled stainless steel products (such as coils, sheets, plates and bars) in Malaysia as at end October 2010. As such, the domestic demand for rolled stainless steel products is also currently satisfied through imports. A new producer of rolled stainless steel products, is expected to commence production in 2011 which may provide an alternative to imports.

The major raw materials used in the production of stainless steel tubes and pipes, and processing of stainless steel sheets are stainless steel coils. Malaysia is a net importer of stainless steel coils. In 2009, the import value of flat-rolled products of stainless steel with all widths and thickness amounted to RM1.6 billion, whilst export value amounted to RM570.0 million.

**6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)**

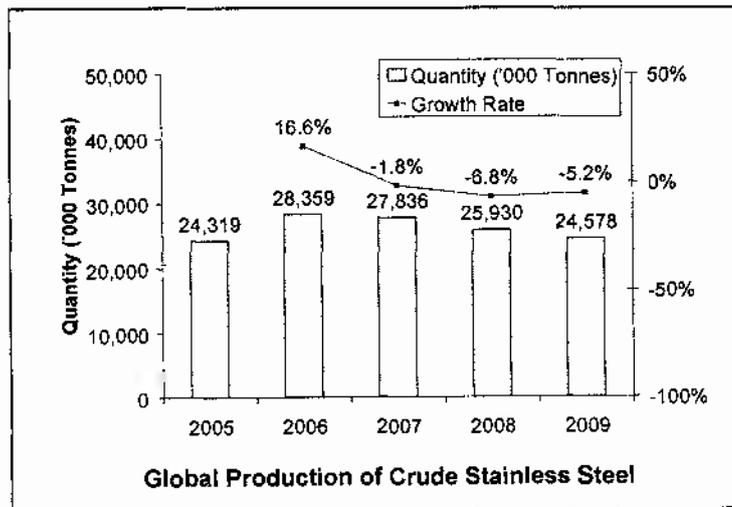
For the first seven months of 2010, the import value of flat-rolled products of stainless steel with all widths and thickness amounted to RM2.4 billion, whilst export value amounted to RM483.4 million.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

**6.6.3 Global Performance of Stainless Steel**

**Global Production of Crude Stainless Steel**

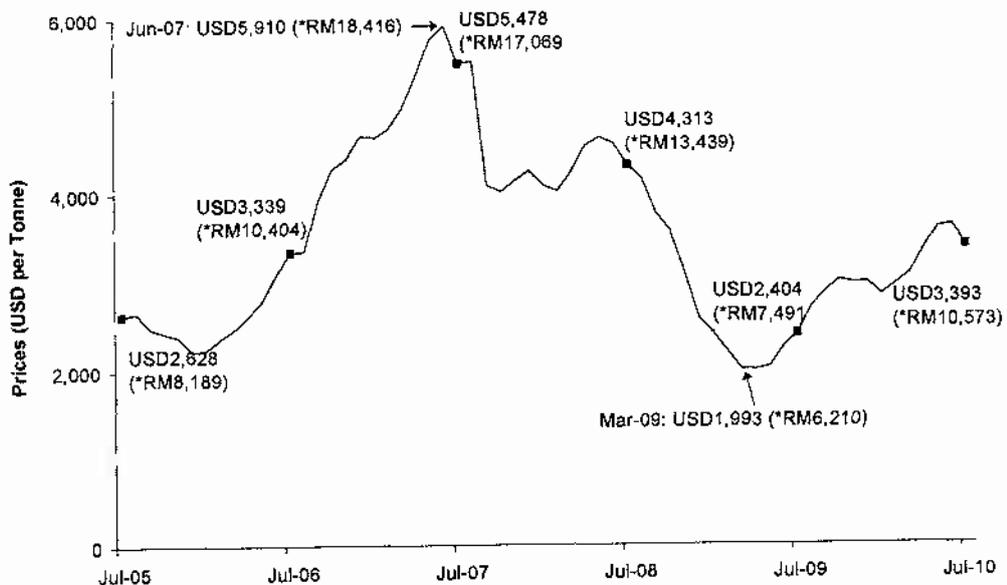
The global production of crude stainless steel for the past five (5) years is as follows:-



Between 2005 and 2009, global production of crude stainless steel grew at an average annual rate of 0.3%.

In 2009, global production of crude stainless steel declined by 5.2% to reach 24.6 million tonnes.

**Global Stainless Steel Prices**



\*Exchange rate of USD 1 = RM3.1160 as at 12 November 2010

**Stainless Steel Prices – Cold Rolled Coil (Grade 304)**

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

Between July 2005 and July 2010, the price of cold rolled stainless steel coil (grade 304) grew at an average annual rate of 5.2%.

Between July 2005 and July 2010, the price of cold rolled stainless steel coil (grade 304) reached a peak of USD5,910 (RM18,416) per tonne in June 2007, and recorded its lowest price at USD1,993 (RM6,210) per tonne in March 2009.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

### 6.7 ESTIMATED MARKET COVERAGE, MARKET POSITION AND MARKET SHARE

#### 6.7.1 Market Size

##### Stainless Steel Industry

In 2009, the market size for rolled stainless steel products in Malaysia based on apparent consumption was estimated at **RM1.1 billion**.

*Note:*

*Rolled stainless steel products include bars, wire rods, angles, shapes, sections, plates, coils and sheets. Apparent consumption is defined as imports plus production less exports.*

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

#### 6.7.2 Market Share

##### Stainless Steel Industry

In 2009, K Seng Seng Group had a market share of approximately **3.5%** of the rolled stainless steel products in Malaysia based on the Group's revenue.

*Note:*

*For the financial year ended 31 December 2009, K Seng Seng Group's revenue for manufacturing of stainless steel tubes, pipes and fasteners, and processing of stainless steel sheets and bars in Malaysia was approximately RM38 million. (Source: K Seng Seng Group)*

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

### 6.8 GOVERNMENT LAWS AND REGULATIONS

#### 6.6.1 Government Regulations

##### Manufacturing Licence

- (a) Apart from the normal manufacturing licence, there are no material government laws, regulations and policies that may impede on operators' performance and growth within a free enterprise environment. Application of a manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with shareholders' funds of RM2.5 million or above or engaging 75 or more full-time employees.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

## 6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

### 6.8.2 Government Incentives

As part of the Malaysian Government's intention to nurture the growth and development of the manufacturing industry, the Government provides the following incentives for the eligible company:

- Pioneer Status;
- Investment Tax Allowance;
- Reinvestment Allowance.

Eligibility for either the Pioneer Status or Investment Tax Allowance will be determined according to the priorities termed as "promoted activities" or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration. Some of the benefits of the respective incentives include:

#### - Pioneer Status

An eligible company for Pioneer Status will enjoy a five (5)-year partial exemption from the payment of income tax;

#### - Investment Tax Allowance

An eligible company for Investment Tax Allowance gets an allowance of 60% on its qualifying capital expenditure (such as factory, plant, machinery or other equipment used for approved project), which are incurred within five (5) years from the date when the first qualifying capital expenditure is incurred.

#### - Reinvestment Allowance

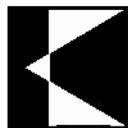
All manufacturing companies that have been in operation for at least twelve (12) months (this condition has been revised to at least thirty-six (36) months, effective from year of assessment 2009) and incur qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related products, and automate its production facilities can obtain a Reinvestment Allowance.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

### 6.8.3 Trade Mark

In Malaysia, Trade Marks are governed by the Trade Marks Act 1976 and Trade Marks Regulation 1997 (Amendment 2001). Trade mark registration provides trademark owners with the exclusive right to use their marks in trading, and the registration certificate issued by Registrar Office serves as legal evidence. The Registrar of Trade Marks is the authority for the registration of trade marks in Malaysia. Registration of trade marks shall be valid for a period of ten years and may be renewed from time to time.

Our Group has registered the following trade marks:

Trade Mark	Class	Trade Mark Number	Issuing Authority	Validity Period	Type of Products
	22	87003143	Registrar of Trade Marks Malaysia	Valid until 21 July 2018	Ropes, string and raw fibrous textile materials all being goods included in Class 22

**6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)**

Trade Mark	Class	Trade Mark Number	Issuing Authority	Validity Period	Type of Products
	6	0800272	Registrar of Trade Marks Malaysia	Valid until 29 April 2018	Stainless steel coil, sheets of metal, pipes of metal and tubes of metal, all included in Class 6

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

**6.8.4 Environmental Regulations**

As part of the process of manufacturing stainless steel tubes and pipes, our Group creates waste and sludge in the following forms:

- Generates stainless steel dust, which is produced during the manufacturing process;
- Produce waste in the form of stainless steel scrap.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

Our Group is equipped with an in-house dust collection system to collect dust that is generated during our polishing process. The dust will then be transported to a dust collection drum located outside our factory. The waste management company will collect the dust from the dust collection drum on a weekly basis.

As part of the production process, we also produce waste in the form of stainless steel scrap. The stainless steel scrap is then collected and sold to external parties for recycling purposes.

**6.9 SUBSTITUTE PRODUCTS**

There are a number of materials that may be used in place of stainless steel in some applications. Some examples of substitute materials include:

- Carbon Steel (Uncoated)
- Galvanised Carbon Steel
- Chrome plated Carbon Steel
- Plastics.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

However all the above materials are unlikely to fully replace stainless steel in many of its applications, details of which are disclosed in **part 5** of **Section 12** of this Prospectus.

**6. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)****6.10 VULNERABILITY AND RELIANCE ON IMPORTS**

As there are currently no primary producers of stainless steel operating in Malaysia as at end October 2010, the stainless steel industry in Malaysia is reliant on imported raw materials. However as stainless steel is a widely produced and traded commodity, any disruptions in supply is therefore minimised.

In 2009, the global production of crude stainless steel is estimated at 24.6 million tonnes, whilst total global stainless steel products exports are estimated at 11.6 million tonnes for the same year. Approximately 47% of the stainless steel that was produced in 2009 was exported. This indicates that stainless steel is a widely traded commodity in the global market.

Malaysia continues to be a net importer of stainless steel. In 2009, the import value of stainless steel amounted to RM1.9 billion, whilst export value amounted to RM681.8 million. For the first seven months of 2010, the import value of stainless steel amounted to RM2.6 billion, whilst the export value amounted to RM553.4 million.

Stainless steel coil is the major feedstock used for the manufacturing of stainless steel tubes and pipes, and processing of stainless steel sheets. Malaysia is also a net importer of stainless steel coils, plates and sheets as at end October 2010. In 2009, the import value of flat-rolled products of stainless steel with all widths and thickness amounted to RM1.6 billion, whilst export value amounted to RM570.0 million. For the first seven months of 2010, the import value of flat-rolled products of stainless steel with all widths and thickness amounted RM2.4 billion, whilst export value amounted to RM483.4 million.

In 2009, the major sources of imports of flat-rolled products of stainless steel of all widths and thickness were South Africa, Taiwan, Korea, Japan, Spain, China, United States, Finland, Germany and many others.

Stainless steel round bars are mainly used as feedstock for processing round bars. In 2009, the import value of other bars and rods of stainless steel; angles, shapes and sections of stainless steel amounted to RM138.0 million. The major sources of imports were Korea, Japan, Taiwan, India, Italy, China, Thailand, United States and many others.

For the first seven months of 2010, the import value of other bars and rods of stainless steel, angles, shapes and sections of stainless steel increased by 68.0% to RM119.2 million compared to the same period in 2009.

*(Source: Independent Assessment of the Stainless Steel Industry focusing on Stainless Steel Tubes, Pipes and Sheets in Malaysia prepared by Vital Factor Consulting Sdn Bhd)*

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**7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL****7.1 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS****7.1.1 Shareholding of our Promoters and substantial shareholders**

Based on our Register of Members as at the LPD, the direct and indirect interests of our Promoters and substantial shareholders in our issued and paid-up share capital before and after the IPO are as follows:-

	Nationality	Before the IPO		After the IPO	
		No. of Shares	%	No. of Shares	%
Koh Seng Kar @ Koh Hai Sew <sup>(a)</sup>	Malaysian	52,500,000	69.19	-	-
Koh Seng Lee <sup>(a)</sup>	Malaysian	22,500,000	29.65	36,960,000	38.50
				15,840,000	16.50

Note:-

(a) Notwithstanding that both Koh Seng Kar @ Koh Hai Sew and Koh Seng Lee are brothers, both have declared that they are not in control of each other's shareholdings.

Save as disclosed above, our Company is not aware of any other persons who directly or indirectly, jointly or severally, have control over our Company.

**7.1.2 Profile of Promoters and substantial shareholders**

The profiles of Promoters and substantial shareholders of our Group, who are our Directors are set out in Section 7.2.2 of this Prospectus.

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**7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

**7.1.3 Changes of the Promoters and substantial shareholders and their shareholdings for past three (3) years**

The changes in our Promoters and substantial shareholders' shareholding in our Company for the past three (3) years up to the LPD are as follows:-

Promoter and substantial shareholders	Shareholdings 31 Decem		Shareholdings 31 Decem		Shareholdings In KSS 31 Decem		Shareholdings in the LP	
	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%
Koh Seng Kar @ Koh Hai Sew <sup>(a)</sup>	10,500,000	70.00	-	-	10,500,000	70.0	52,500,000	69.19
Koh Seng Lee <sup>(a)</sup>	4,500,000	30.00	-	-	4,500,000	30.0	22,500,000	29.65

Note:-

(a) Notwithstanding that both Koh Seng Kar @ Koh Hai Sew and Koh Seng Lee are brothers, both have declared that they are not in control of each other's shareholdings.

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## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 7.2 DIRECTORS

#### 7.2.1 Shareholdings of our Directors

Based on our Register of Members as at the LPD, the direct and indirect interests of our Directors in our issued and paid-up share capital before and after the IPO are as follows:-

Directors	Nationality	Before the IPO		After the IPO	
		Direct No. of Shares	%	Direct No. of Shares	%
Koh Seng Kar @ Koh Hai Sew	Malaysian	52,500,000	69.19	-	-
Koh Seng Lee	Malaysian	22,500,000	29.65	-	-
Tsen Ket Shung @ Kon Shung	Malaysian	-	-	(b) 300,000	0.33
Zainal Rashid Bin Haji Mohd Eusoff	Malaysian	-	-	(b) 100,000	0.10
Yap Siok Teng	Malaysian	-	-	(b) 50,000	0.05
Lim Ho Kin	Malaysian	-	-	(b) 60,000	0.06

**Notes:-**

- (a) Notwithstanding that both Koh Seng Kar @ Koh Hai Sew and Koh Seng Lee are brothers, both have declared that they are not in control of each other's shareholdings.  
 (b) Assumes that our eligible Directors will subscribe for his/her entire entitlement under the pink form allocation as disclosed in Section 3.7 of this Prospectus.

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## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 7.2.2 Profiles of our Directors

The profiles of our Directors are as follows:-

**Mr Koh Seng Kar @ Koh Hai Sew**, a Malaysian aged 67, is our Chairman and Managing Director. He was appointed to our Board on 15 January 1985. He is also a member of our Remuneration Committee. He brings with him approximately twenty five (25) years of experience in the trading of steel industrial fasteners, marine hardware and consumables, and industrial hardware as well as the manufacturing and processing of secondary stainless steel products. As our Managing Director and the founder of our Company, he has been instrumental in the development, growth and success of our Group. He started his career in 1980, when he set-up a sole proprietary business which was involved in the trading of industrial textile and threads. Subsequently in 1985, he established Vinyon Industries Sdn Bhd and ventured into the trading of marine hardware and consumables industry. Under his leadership and guidance, we have grown from a small marine hardware and consumable trading company to a one-stop supply centre for secondary stainless steel products. He is presently responsible for the overall operations of our Group with emphasis on strategic business planning and development. He is supported by a team of key management personnel who are responsible for implementing and executing our Group's strategic plans.

**Mr Koh Seng Lee**, a Malaysian aged 48, is our Deputy Managing Director. He was appointed to our Board on 26 May 1986. He brings with him approximately twenty four (24) years of experience in the trading of steel industrial fasteners, marine hardware and consumables, industrial hardware as well as the manufacturing and processing of secondary stainless steel products. As our Deputy Managing Director, his overall management and supervision has contributed significantly to the development, growth and success of our Group. He is currently responsible for overseeing our day-to-day manufacturing, processing and trading operations as well as the sales and marketing activities of our Group.

**Tsen Ket Shung @ Kon Shung**, a Malaysian aged 39, is our Executive Director. He was appointed to our Board on 19 June 2009. He is a Chartered Accountant, member of the Malaysian Institute of Accountants (MIA) and a Fellow of the Association of Chartered Certified Accountant (ACCA). His career started in 1992, when he joined a local accounting firm as an Audit Assistant but later held the position of Audit Senior when he left the company in 1995. In 1996, he joined KLS Car Upholstery Sdn Bhd (presently known as DK Leather Manufacturing Sdn Bhd) as an Accountant and in 1999, he left to join our Company as the Group Accountant. He is currently responsible for overseeing our Group's overall financial, corporate and information technology functions.

**Zainal Rashid Bin Haji Mohd Eusoff**, a Malaysian aged 69, is our Independent Non-Executive Director. He was appointed to our Board on 24 March 2010. He is a member in both the Audit Committee and Nomination Committee, and Chairman of the Remuneration Committee. He has more than thirty (30) years experience working with the Royal Malaysian Customs Department where he held various positions within the department. During his tenure at the Royal Malaysian Customs Department, he was involved as a participating Malaysian delegate in international meetings pertaining to the formation and development of the Harmonized Commodity Description and Coding System ("Harmonized System"), an international coding system for the classification of imported goods under the auspices of the World Customs Organization based in Brussels, Belgium. He was also responsible for the preparation and implementation of the Malaysian Customs Tariffs based on the Harmonized System in 1988. In addition, he had previously headed the Special Squad Unit, an enforcement section as Senior Assistant Director prior to his retirement in 1996.

## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

**Yap Siok Teng**, a Malaysian aged 50, is our Independent Non-Executive Director. She was appointed to our Board on 24 March 2010. She is the Chairperson to both Audit Committee and Nomination Committee, and a member of the Remuneration Committee. She is a Fellow member of the Association of Chartered Certified Accountant (ACCA), a member of Malaysian Institute of Accountant (MIA) and Chartered Tax Institute of Malaysia. Presently, she is a practicing accountant in Yap & Associates, which she set up in 1994 upon obtaining her audit license from the Treasury Department of Malaysia. In addition, she is also a partner in the audit firm, Cheong Lim & Associates. On 5 May 2005, she was appointed as an Independent Non-Executive Director of Nextnation Communication Berhad, a company listed on the ACE Market of Bursa Securities which is involved in providing software development, internet consulting and information technology services. She brings with her approximately twenty six (26) years working experience in the field of audit, accountancy, general management and corporate advisory. Her qualifications and vast experience as an accountant will benefit our Group in the financial and corporate governance aspects.

**Lim Ho Kin**, a Malaysian aged 64, is our Independent Non-Executive Director. He was appointed to our Board on 24 March 2010. He is also a member of our Audit Committee, Nomination Committee and Remuneration Committee. He has been an Associate Member of the Chartered Institute of Bankers, London. He began his career at Bank Negara Malaysia in 1965 where he worked until 1978, and was mainly engaged in the examination of banking institutions. In 1978, he joined Oriental Bank Berhad and during his tenure there, he held various positions within the company. The positions he held include, amongst others, Head of International and Treasury, Head of Internal Audit and Head Branch Supervision department. He retired as the Assistant General Manager in 2001. He is presently employed as the Assistant Vice President and Head of Group Internal Audit of Elken Sdn Bhd, a multi-level marketing company.

Save as disclosed below and the directorship held in our Company, none of our Directors have/had performed any principal business activities outside our Group for the past five (5) years preceding the date of this Prospectus:-

Name	Directorship and principal activities of the companies	Involved in business activities other than as a director
Koh Seng Kar @ Koh Hai Sew	Present directorship: <ul style="list-style-type: none"> <li>• Isotank Container Sdn Bhd is principally involved in repair and maintenance, and testing of maritime tank containers.</li> <li>• W.S.I Sdn Bhd is principally involved in property investment.</li> <li>• EIE is principally involved in investment holding and leasing of toiletry dispensers.</li> <li>• KSK Realty Sdn Bhd, a property investment company.</li> <li>• Herald Heights Sdn Bhd, a property investment company.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder of Isotank Container Sdn Bhd, W.S.I Sdn Bhd, KSK Realty Sdn Bhd and Herald Heights Sdn Bhd.</li> <li>• Sole proprietor of Hun Wah Trading &amp; Transport.</li> </ul>

**7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

Name	Directorship and principal activities of the companies	Involved in business activities other than as a director
	<ul style="list-style-type: none"> <li>• Hoe Heng Leong Construction Sdn Bhd, a dormant company.</li> </ul> <p>Past directorship:</p> <ul style="list-style-type: none"> <li>• MT Global Technologies Sdn Bhd (<i>Resigned on 15 May 2008</i>)</li> <li>• G.S. Warehousing Sdn Bhd (<i>Resigned on 5 April 2010</i>)</li> </ul>	
Koh Seng Lee	<p>Present directorship:</p> <ul style="list-style-type: none"> <li>• SL Koh Sdn Bhd is principally involved in property and investment holding.</li> <li>• EIE is principally involved in investment holding and leasing of toiletry dispensers.</li> <li>• EIE Industrial Products Sdn Bhd is principally involved in trading of industrial hardware for various end user industries including mining and quarry industry.</li> <li>• EIE Pulp &amp; Specialty Sdn Bhd is principally involved in trading and dealing of paper and pulp.</li> <li>• W.S.I Sdn Bhd is principally involved in property investment.</li> </ul> <p>Past directorship:</p> <ul style="list-style-type: none"> <li>• MT Global Technologies Sdn Bhd (<i>Resigned on 15 May 2008</i>)</li> <li>• Syabas Bersatu Sdn Bhd (<i>Resigned on 31 March 2008</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder of EIE Industrial Products Sdn Bhd and EIE Pulp &amp; Specialty Sdn Bhd.</li> </ul>
Zainal Rashid Bin Haji Mohd Eusoff	<p>Present directorship:</p> <ul style="list-style-type: none"> <li>• Syabas Bersatu Sdn Bhd is principally involved in information technology related businesses</li> <li>• Star Bliss Sdn Bhd is principally involved in general contracting works.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder of Syabas Bersatu Sdn Bhd, Ever Flowtech Sdn Bhd, Tele-Paper (M) Sdn Bhd and Tropicana Holdings Sdn Bhd.</li> </ul>

**7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

Name	Directorship and principal activities of the companies	Involved in business activities other than as a director
	<ul style="list-style-type: none"> <li>• Ever Flowtech Sdn Bhd is a dormant company.</li> <li>• Sprint Quantum Sdn Bhd is a dormant company.</li> <li>• Tropicana Holdings Sdn Bhd is principally involved in distribution of canned foods.</li> <li>• Tele-Paper (M) Sdn Bhd is principally involved in manufacturing and printing of paper products.</li> </ul> <p>Past directorship:</p> <ul style="list-style-type: none"> <li>• M &amp; C Herbal Industry Sdn Bhd (<i>Resigned on 22 April 2003</i>)</li> <li>• Pureone industries Sdn Bhd (<i>Resigned on 19 September 2009</i>)</li> <li>• Excellent Functions Sdn Bhd (<i>Resigned on 25 September 2006</i>)</li> <li>• Tri-R Consult Sdn Bhd (<i>Resigned on 18 September 2007</i>)</li> <li>• Admatech Sdn Bhd (<i>Resigned on 15 January 2010</i>)</li> <li>• Well Proceed Sdn Bhd (<i>Resigned on 22 February 2010</i>)</li> <li>• Syabas Saga Sdn Bhd (<i>Resigned on 15 October 2008</i>)</li> <li>• Beneton Prospek Sdn Bhd (<i>Resigned on 18 May 2009</i>)</li> <li>• Viva Holdings Sdn Bhd (<i>Resigned on 10 July 2009</i>)</li> <li>• Regal Edge Sdn Bhd (<i>Resigned on 24 March 2010</i>)</li> </ul>	

**7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

Name	Directorship and principal activities of the companies	Involved in business activities other than as a director
Yap Siok Teng	Present directorship: <ul style="list-style-type: none"> <li>• Nextnation Communication Berhad is principally involved in investment holding whilst its subsidiaries are involved in providing software development, internet consulting and information technology services.</li> <li>• Biznew Tax Advisory Sdn Bhd is principally involved in management services.</li> <li>• Hwajuin Sdn Bhd is principally involved in property investment.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder of Biznew Tax Advisory Sdn Bhd and Hwajuin Sdn Bhd</li> <li>• Sole practitioner of Yap &amp; Associates</li> <li>• Partner of Cheong Lim &amp; Associates</li> </ul>
Lim Ho Kin	Nil	<ul style="list-style-type: none"> <li>• Assistant Vice President and Head of Group Internal Audit of Elken Sdn Bhd</li> </ul>

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## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 7.2.3 Directors' remuneration and benefits

The aggregate remuneration and benefits paid and proposed to be paid for services rendered to our Group for the FYE 31 December 2009 and proposed FYE 31 December 2010 are as follows:-

Director(s)	Remuneration Band (RM)	
	FYE 31 December 2009	Proposed for FYE 31 December 2010
Koh Seng Kar @ Koh Hai Sew	150,001 – 200,000	350,001 - 400,000
Koh Seng Lee	200,001 – 250,000	350,001 - 400,000
Tsen Ket Shung @ Kon Shung	50,001 - 100,000	150,001 – 200,000
Zainal Rashid Bin Haji Mohd Eusoff	-	0 - 50,000
Yap Siok Teng	-	0 - 50,000
Lim Ho Kin	-	0 - 50,000

### 7.2.4 Director's Proposed Service Agreement

As at the LPD, none of our Directors has any existing or proposed service agreements with our Group.

## 7.3 BOARD PRACTICES

### 7.3.1 Directorship

As at the LPD, the details of the date of expiration of the current term of office for each of the Directors and the period for which our Directors have served in that office are as follows:-

Name	Date of appointment	Designation	Date of expiration of the current term of office	No. of years in office
Koh Seng Kar @ Koh Hai Sew	15 January 1985	Chairman and Managing Director	26 <sup>th</sup> Annual General Meeting ("AGM")	Approximately 25 years
Koh Seng Lee	26 May 1986	Deputy Managing Director	26 <sup>th</sup> AGM	Approximately 24 years
Tsen Ket Shung @ Kon Shung	19 June 2009	Executive Director	27 <sup>th</sup> AGM	more than 1 year
Zainal Rashid Bin Haji Mohd Eusoff	24 March 2010	Independent Non-Executive Director	26 <sup>th</sup> AGM	less than 1 year
Yap Siok Teng	24 March 2010	Independent Non-Executive Director	26 <sup>th</sup> AGM	less than 1 year
Lim Ho Kin	24 March 2010	Independent Non-Executive Director	26 <sup>th</sup> AGM	less than 1 year

## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 7.3.2 Audit Committee

Our Audit Committee comprises the following members:-

Name	Designation	Directorship
Yap Siok Teng	Chairman	Independent Non-Executive Director
Lim Ho Kin	Member	Independent Non-Executive Director
Zainal Rashid Bin Haji Mohd Eusoff	Member	Independent Non-Executive Director

The main functions of the Audit Committee include inter-alia, the review of audit plans and audit reports with our external auditors, review of the auditors' evaluation of internal accounting controls and management information systems, review of the scope of internal audit procedures, review of the financial statements, and nomination of the external auditors.

### 7.3.3 Remuneration Committee

Our Remuneration Committee comprises the following members:-

Name	Designation	Directorship
Zainal Rashid Bin Haji Mohd Eusoff	Chairman	Independent Non-Executive Director
Yap Siok Teng	Member	Independent Non-Executive Director
Lim Ho Kin	Member	Independent Non-Executive Director
Koh Seng Kar @ Koh Hai Sew	Member	Chairman and Managing Director

The main functions of the Remuneration Committee include inter-alia, the recommendation to our Board the remuneration of the Directors, assisting our Board in assessing the responsibility and commitment undertaken by our Board members and assisting our Board in ensuring the remuneration of the Directors are reflective of the responsibility and commitment of the Directors concerned.

### 7.3.4 Nomination Committee

Our Nomination Committee comprises the following members:-

Name	Designation	Directorship
Yap Siok Teng	Chairman	Independent Non-Executive Director
Lim Ho Kin	Member	Independent Non-Executive Director
Zainal Rashid Bin Haji Mohd Eusoff	Member	Independent Non-Executive Director

The main functions of the Nomination Committee include the inter-alia, the review of all nominations for the appointment or re-appointment of members of the Board and to determine the selection criteria therefore, review of the structure, size and composition of our Board, and to ensure that all our Directors undergo appropriate introduction and training programmes.

## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 7.4 KEY MANAGEMENT AND TECHNICAL PERSONNEL

#### 7.4.1 Key management and technical personnel's shareholding

Based on our Register of Members as at the date of this Prospectus, the direct and indirect interests of our key management and technical personnel in our issued and paid-up share capital before and after the IPO are as follows:-

Key management / technical personnel	Designation	Nationality	Before the IPO		After the IPO					
			Direct No. of Shares	%	Direct No. of Shares	%				
Koh Seng Kar @ Koh Hai Sew <sup>(a)</sup>	Chairman and Managing Director	Malaysian	52,500,000	69.19	-	-	36,960,000	38.50	-	-
Koh Seng Lee <sup>(a)</sup>	Deputy Managing Director	Malaysian	22,500,000	29.65	-	-	15,840,000	16.50	-	-
Tsen Ket Shung @ Kon Shung	Executive Director	Malaysian	-	-	-	-	<sup>(b)</sup> 300,000	0.31	-	-
Wong Ee Che	General Manager	Malaysian	220,000	0.29	-	-	<sup>(b)</sup> 320,000	0.33	-	-
Tan Lian Choon	Group Accountant	Malaysian	-	-	-	-	<sup>(b)</sup> 100,000	0.10	-	-
Teoh Kim Lan	Operations Manager	Malaysian	-	-	-	-	<sup>(b)</sup> 170,000	0.18	-	-
Zamzuri Bin Saale	Production Manager	Malaysian	-	-	-	-	<sup>(b)</sup> 5,000	0.01	-	-
Chin Yoke Jee	Production Manager	Malaysian	-	-	-	-	<sup>(b)</sup> 10,000	0.01	-	-
Lee Weng Chun	Production Engineer	Malaysian	-	-	-	-	<sup>(b)</sup> 70,000	0.07	-	-
Hu Siew Fun	Administration and Human Resource Manager	Malaysian	-	-	-	-	<sup>(b)</sup> 113,000	0.12	-	-

## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### Notes:-

- (a) *Notwithstanding that both Koh Seng Kar @ Koh Hai Sew and Koh Sang Lee are brothers, both have declared that they are not in control of each other's shareholdings.*
- (b) *Assumes that our eligible Directors and eligible employees will subscribe for his/her entire entitlement under the pink form allocation.*

### 7.4.2 Profiles

The profiles of our key management and technical personnel of our Group, other than the profile of Kor Seng Kar @ Koh Hai Sew, Koh Seng Lee and Tsen Ket Shung @ Kon Shung which is set forth in **Section 7.2.2** of this Prospectus are as follows:-

**Wong Ee Che**, aged 34, is our General Manager. He is also a director of PTM, a wholly-owned subsidiary of our Group. He graduated in 1997 with a Bachelor of Arts Honours Degree from Coventry University, United Kingdom. His career started in 1997 when he joined SK Networks Co Ltd (formerly known as SK Global Co. Ltd.) in Kuala Lumpur as Assistant Marketing Manager and was subsequently promoted in the following year to Senior Manager in 1998. He left the company in 2003 and joined our Group where he was involved in sales and marketing of stainless steel products. He is also involved in the manufacturing of stainless steel tubes and pipes. Subsequently in 2008, he was promoted to General Manager. He is currently responsible for overseeing the manufacturing, processing and trading operations of our Group.

**Tan Lian Choon**, aged 31, is our Group Accountant. She is a Chartered Accountant, a member of the Malaysian Institute of Accountants (MIA) and Association of Chartered Certified Accountants (ACCA). Her career started in 2002, when she joined our Group as an Accounts Assistant. In early 2009, she was promoted as our Group Accountant. She is mainly responsible for the accounting and finance functions of our Group.

**Teoh Kim Lan**, aged 48, is our Operations Manager. Her career started in 1982 when she joined Sinmain Machinery and Hardware (M) Sdn Bhd as a Store Keeper. In 1994, she left and joined KSSC as a Procurement and Operations Manager. In 2006, she was seconded to PTM as Operations Manager of the company. She is currently responsible for managing our manufacturing and production operations, which includes, amongst others, production planning, organizing, controlling, and directing our manufacturing and production activities.

**Zamzuri Bin Saale**, aged 39, is our Production Manager for our processing operations. His career started in 1990 when he joined Anshin Steel Service Centre Sdn Bhd as Quality Assurance Senior Executive. In 2006, he left and joined our Group as Assistant Production Manager. In 2009, he was promoted to his current position as Production Manager. He is currently responsible for the supervision of our processing operations, which include amongst others, ensuring effective management of our processing production lines and supervising our processed product standards.

**Chin Yoke Jee**, aged 37, is our Production Manager for our manufacturing operations. His career started in 1992 when he joined Artright Technology Sdn Bhd as Production Technician. In 1998, he left the company and joined Bristol Industry Sdn Bhd as Production Planning Supervisor. In 2005, he left Bristol Industry Sdn Bhd to take up the position of Production Manager of our Group. He is currently responsible for the supervision of our manufacturing operations, which include amongst others, ensuring effective management of our manufacturing production lines and supervising our manufactured product standards.

## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

**Lee Weng Chun**, aged 36, is our Production Engineer. He obtained a Diploma in Electronic Engineering from Federal Institute of Technology in Kuala Lumpur in 1996. In 1998, he obtained a Bachelor of Engineering Degree in Electrical and Electronic Engineering from University of Northumbria, United Kingdom. His career started in 2000 when he joined TK Lee Engineering Sdn Bhd as Assistant Manager. In 2006, he left and took up the position of Sales Engineer with Longlife Weld (KL) Sdn Bhd. Subsequently in 2007, he left and joined our Group as Production Engineer. He is currently responsible for overseeing the quality management system, production and preventive maintenance functions of our Group.

**Hu Siew Fun**, aged 35, is our Administration and Human Resource Manager. Her career started in 1996 when she joined Pro Steel Engineering Sdn Bhd as an Accounts Assistant. In 1998, she left and joined our Group as Accounts Assistant. In 2009, she was promoted as our Administration and Human Resource Manager, overseeing the overall administrative and human resource functions of our Group.

### 7.5 INVOLVEMENT OF EXECUTIVE DIRECTORS/KEY MANAGEMENT AND TECHNICAL PERSONNEL IN OTHER BUSINESSES/CORPORATIONS

As at the LPD, save as disclosed below and in **Section 7.2.2** of this Prospectus, all of our Group's executive directors and key management are full-time employees of our Group and is not involved in the operations of other businesses/corporations outside our Group.

Name	Directorship	Involved in business activities other than as a director
Wong Ee Che	Present directorship: <ul style="list-style-type: none"> <li>• Infitron (M) Sdn Bhd, a dormant company.</li> </ul>	Sole proprietor of Esteel Enterprise, which has been inactive since 2006.

Our Executive Directors' involvement in other businesses and corporations disclosed under **Section 7.2.2** of this Prospectus do not require their daily involvement as those businesses/companies are managed by well qualified and experience managers and key managements. As such, their involvement in such other businesses or corporations will neither affect their contribution to our Group nor negatively impact their ability to act as the Directors of our Group.

### 7.6 DECLARATIONS FROM OUR PROMOTERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL

None of our Promoter, Directors and key management and technical personnel is or was involved in any of the following events, whether within or outside Malaysia:-

- (i) a petition under any bankruptcy or insolvency law was filed (and not struck out) against such person or any partnership in which he was a partner, or any corporation of which he was a director or key personnel;
- (ii) disqualified from acting as a director of any corporation, or from taking part directly or indirectly in the management of the corporation;
- (iii) charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (iv) any judgment was entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or

**7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

- (v) the subject of any order, judgment or ruling of any court, government, or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

**7.7 FAMILY RELATIONSHIPS AND ASSOCIATIONS**

Save for Koh Seng Kar @ Koh Hai Sew and Koh Seng Lee, our Promoters, substantial shareholders and Directors, who are brothers, there are no family relationships (as defined under Section 122A of the Act) and associations between or amongst our Directors, Promoters, substantial shareholders and key management and technical personnel.

**7.8 PROMOTERS, DIRECTORS AND/OR SUBSTANTIAL SHAREHOLDERS' BENEFIT**

Save as disclosed in Section 7.2.3 of this Prospectus and the Dividend paid to our substantial shareholders, there have been no amounts and benefits that have been or are intended to be paid or given to our Promoters, Directors and/or substantial shareholders within the two (2) years preceding the date of this Prospectus.

**7.9 SERVICE AGREEMENTS**

As at the LPD, none of our key management and technical personnel has existing or proposed service agreements with our Group.

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## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 7.10 MANAGEMENT AND EMPLOYEES

As at the LPD, our Group has a total workforce of 108 full time employees, of which 40 are foreign workers. We do not experience any significant seasonal fluctuations in our number of employees. We do not employ a significant number of temporary staff.

The category of our employee structure for the past three (3) FYE 31 December 2009 and as at the LPD is as follows:-

Category of employee	No. of employees				Average length of service as at the LPD
	As at 31 December 2007	As at 31 December 2008	As at 31 December 2009	As at the LPD	
Managerial and professional	8	7	9	9	3.5 – 16 years
Technical and supervisory	18	19	16	14	0.5 – 8.5 years
Sales and marketing	10	12	12	14	0.5 – 16 years
Clerical and related occupations	4	5	4	7	0.5 – 6.5 years
Factory and general workers	49	46	46	*64	0.5 – 7 years
<b>Total</b>	<b>89</b>	<b>89</b>	<b>87</b>	<b>108</b>	

**Note:-**

\* The significant increase in the number of factory and general workers as at the LPD was mainly due to our anticipation of improving sales of our secondary stainless steel products as disclosed in Section 10.6 of this Prospectus as well as our intention to commercialise our new range of products as disclosed in Section 5.9 of this Prospectus.

Our Directors have confirmed that all the foreign employees have valid working permits and are not in breach of any immigration laws. The number of foreign employees for the past three (3) FYE 31 December 2009 and as at LPD are as follows:-

Location	FYE 2007	FYE 2008	FYE 2009	As at the LPD
China	2	3	2	2
Myanmar	21	19	17	26
Vietnam	16	14	7	4
Nepal	-	-	8	8
<b>Total</b>	<b>39</b>	<b>36</b>	<b>34</b>	<b>40</b>

None of our employees are members of any union nor have there been any major industrial disputes in the past.

#### Training and Development

We believe that employees are key assets that play a pivotal role in our continuous growth and recognise the importance of retaining quality employees. It is our practice to encourage the development and training of employees for the improvement of overall skills and professionalism for the enhancement of productivity. We emphasise on training and development as an essential continuing process and encourage our employees to increase their skills and knowledge through hands-on training.

Towards this respect, we have been consistently sending our personnel to various courses, both in-house and externally conducted, such as technical and financial courses, in tandem with their respective job functions and training needs, to equip them with the necessary skills to further develop their capabilities. We believe in motivating our employees by providing opportunities for progressive career growth, and as such, provide these training opportunities to enhance their performance in order to assume wider job responsibilities.

## 7. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

Some of the external training programmes which we have participated in since 2008 are as follows:-

Month / Year	Programme	Organiser
15 July 2008	Training on internal quality audit	Brain Elite Consultants Sdn Bhd
25 and 26 November 2008	Application Aspects Of The Financial Reporting Standards In Malaysia	Bursatra Sdn Bhd
16 and 17 December 2008	Financial Instruments: Recognition, Measurement, Disclosure & Presentation	Bursatra Sdn Bhd
12 January 2009	Seminar on ISO 9001:2008 Quality Management System Requirements	SGS (Malaysia) Sdn Bhd
1 December 2009	Microsoft Powerpoint 2003 (Fundamental-Intermediate)	Malaysian Institute of Chartered Secretaries and Administrators
7 and 8 December 2009	Financial Instruments: Recognition, Measurement, Disclosure & Presentation	Bursatra Sdn Bhd
1 March 2010	The all new year 2010 edition quarterly interim financial reporting and the various new standards, interpretations and amendments to the various standards	Bursatra Sdn Bhd
17 March 2010	ISO 9001:2008 Quality Management System Awareness Training	Brain Elite Consultants Sdn Bhd
8 and 9 September 2010	Preparation of Group Accounts (Covering FRS 3, 127, 128 and 131)	Malaysian Institute Of Accountants

### Management Succession Plan

We place high priority on ensuring that there is continuity in our management team so as to maintain our level of competitiveness in the industry. To achieve this, it is our practice to groom the lower and middle management staff to gradually assume the responsibilities of the senior management. Our top management drives the strategy for management continuity. Our Managing Director, together with our Deputy Managing Director are involved in the process of identifying key competencies and requirements for managerial and more senior positions. Job and candidate profiles are developed for management positions in line with our business goals, strategies and culture.

## 8. APPROVALS AND CONDITIONS

### 8.1 APPROVALS FROM RELEVANT AUTHORITIES

Our Listing Scheme is subject to the following approvals being obtained:-

- (i) the SC, which was obtained vide their letter dated 1 September 2010, pursuant to Section 215(5) of the CMSA; and
- (ii) the MITI, which was obtained vide their letter dated 27 September 2010; and
- (iii) Bursa Securities, for the admission to the Official List and listing of and quotation for the entire enlarged issued and paid-up capital of our Company on the Main Market of Bursa Securities, which was obtained vide their letter dated 21 December 2010.

### 8.2 CONDITIONS ON APPROVALS

The conditions imposed by the SC vide their letter dated 1 September 2010 are as follows:-

Authority	Conditions Imposed	Status of compliance
SC	<p>(i) KSSC to fully disclose in its listing prospectus the following:-</p> <ul style="list-style-type: none"> <li>• Aging analysis over the last three (3) financial years as well as the latest financial period as at 30 June 2010;</li> <li>• Risks associated with having such a large disparity between the trade receivables and the trade payables period;</li> <li>• Steps and measures in which KSSC intends to undertake to improve the collection and reduce the disparity between the trade receivables and the trade payables period;</li> <li>• The Board's comments on the company's ability to sustain its level of profits, going forward given that KSSC is operating in a competitive industry; and</li> <li>• KSSC's ability to sustain the level of its profit margins for each of its main activity and how it manages to have better margins than its competitors.</li> </ul> <p>(ii) The external auditors of KSSC is required to:-</p> <ul style="list-style-type: none"> <li>• Verify the status of payments and collections of its trade payables and trade receivables, respectively based on the latest audited accounts; and</li> <li>• Confirm whether or not there are provisions made or written off in relation to the trade receivables based on the latest audited accounts disclosed in the listing prospectus.</li> </ul>	<p>Complied. Please refer to <b>Section 10.5.9</b> of this Prospectus for the relevant disclosure.</p> <p>Complied. Please refer to <b>Section 10.5.9</b> of this Prospectus for the relevant disclosure.</p> <p>Complied. Please refer to <b>Section 10.5.9</b> of this Prospectus for the relevant disclosure.</p> <p>Complied. Please refer to <b>Section 10.6(c)</b> of this Prospectus for the relevant disclosure.</p> <p>Complied. Please refer to <b>Section 10.6(c)</b> of this Prospectus for the relevant disclosure.</p> <p>Complied. Please refer to <b>Section 10.5.9</b> of this Prospectus for the relevant disclosure.</p>

**8. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

Authority	Conditions imposed	Status of compliance
	(iii) KSSC to allocate 12,000,000 of the KSSC Shares to the Bumiputera investors, including the shares offered under the balloted public offer portion, in which 50% are to be offered to the retail Bumiputera investors. In the event that KSSC/MITI is unable to allocate the KSSC Shares to the potential Bumiputera investors, the unsubscribed shares shall be offered to the Bumiputera public investors via balloting;	To be complied with.
	(iv) OSK/KSSC should fully comply with the requirements of the Equity and Prospectus Guidelines pertaining to the implementation of the proposal; and	Noted and to be complied with.
	(v) OSK/KSSC to inform the SC upon the completion of the Proposed Listing.	Noted and to be complied with.

The SC (under the Equity Requirements for Public Companies) has noted that the equity structure relating to Bumiputera, non-Bumiputera and foreign shareholdings in our Company would change arising from the implementation of our Listing Scheme, as follows:-

Category of shareholders	Before proposals (%)	After proposals (%)
Bumiputera	-	12.50
Non-Bumiputera	100.00	87.16
Foreigners	-	0.34
Total	100.00	100.00

The MITI had vide their letter dated 27 September 2010 approved our Listing Scheme with the following conditions:-

Authority	Conditions imposed	Status of compliance
MITI	(i) The entire 9,000,000 KSSC Shares available for private placement to Bumiputera investors are subject to the MITI's approval whereby the allocation will be decided after the listing is approved by the SC.	Noted.
	(ii) KSSC to notify the MITI on the completion of the listing.	Noted and to be complied with.

**8.3 MORATORIUM ON SALE OF SHARES**

One of the conditions imposed by the SC for Listing is that a moratorium shall be imposed on the entire shareholdings held by our Promoter comprising 52,800,000 Shares representing 55.00% of the enlarged issued and paid-up share capital of our Company. Our Promoter are not allowed to sell, transfer or assign their respective shareholdings in our Group within six (6) months from the date of our admission to the Official List of the Main Market of Bursa Securities.

The restriction, which is fully acknowledged by the aforesaid shareholders, are specifically endorsed on the notices of allotment representing the respective shareholdings of the shareholders which are under moratorium as follows:-

**"The shares comprised herein are not capable of being sold, transferred or assigned for a period determined by the SC ("Moratorium Period"). Accordingly, the shares comprised herein will not constitute good delivery pursuant to the Rules of Bursa Securities during the Moratorium Period. No share certificate or certificates will be issued to replace this certificate during the Moratorium Period unless the same shall be endorsed with this restriction."**

## 9. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

### 9.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, there are no existing and / or proposed related party transactions entered or to be entered into in respect of the three (3) most recent completed financial years and the subsequent financial period thereof preceding the date of this Prospectus:-

Transacting Parties	Business activities of the Company outside of Our Group	Nature of Transaction	Actual value for the FYE 31			FPE 31 August 2010 RM	Estimate 2011* RM	Interested substantial shareholder / Director and key management		Shareholdings	
			2007 RM	2008 RM	2009 RM			Direct (%)	Indirect (%)		
<b>Recurrent related party transactions:</b>											
EIE Industrial Products Sdn Bhd ("EIE Industrial")	Trading of industrial hardware for various end user industries, particularly the mining and quarry market industries, quarries and mines	Rental of office at Lot 3707 Jalan 7/5, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan from KSSC	8,000	-	-	-	-	Koh Seng Kar @ Koh Hai Sew	-	(a)100	
EIE Pulp & Specialty Sdn Bhd ("EIE Pulp")	General trading and dealing in paper and pulp	TTH, a subsidiary of KSSC sells industrial hardware to EIE Industrial	1,592,694	2,350,090	1,982,816	425,395	2,000,000	Koh Seng Kar @ Koh Hai Sew	-	(a)100	
W.S.I Sdn Bhd	Property investment	TTH, a subsidiary of KSSC sells industrial hardware to EIE Pulp	785,773	561,081	582,891	375,654	550,000	Koh Seng Kar @ Koh Hai Sew	-	(a)71	
		Rental of property at 102 A, Jalan Keris, Taman Sri Tebrau, 80050 Johor Bahru, Johor Darul Takzim from KSSC	3,600	3,600	3,600	(b)1,500	-	Koh Seng Kar @ Koh Hai Sew	50	-	
								Koh Seng Lee	-	(a)71	

## 9 RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)

Transacting Parties	Business activities of the Company outside of Our Group	Nature of Transaction	Actual value for the FYE 31			FPE 31 August 2010 RM	Estimate 2011* RM	Interested substantial shareholder / Director and key management	Shareholdings	
			2007 RM	2008 RM	2009 RM				Direct (%)	Indirect (%)
Isotank Container Services Sdn Bhd	Maintaining and testing of maritime tank containers	Rental of office at 102 A, Jalan Keris, Taman Sri Tebrau, 80050 Johor Bahru, Johor Darul Takzim from KSSC	3,600	600	-	-	Koh Seng Kar @ Koh Hai Sew	58	-	
Innosin Sdn Bhd	Manufacturer of architectural metal works, kitchen and service equipments, industrial laboratory, maritime and accessories	TTH, a subsidiary of KSSC sells stainless steel tubes and pipes to Innosin Sdn Bhd  PTM, a subsidiary of KSSC purchase of machinery spare parts from Innosin Sdn Bhd	256,109	147,698	86,629	7,184	500,000	Eng Mong Kee, is a director of PTM, our wholly-owned subsidiary	4%	-
			-	-	-	14,926	-	Eng Mong Kee, is a director of PTM, our wholly-owned subsidiary	4%	-

## Notes:-

- \* The value of these transactions are estimates and is therefore provisional in nature and subject to change  
 (a) Deemed interested by virtue of their substantial shareholdings in EIE pursuant to Section 6A of the Act  
 (b) The tenancy agreement between W.S.I Sdn Bhd and KSSC was terminated on 1 May 2010.  
 (c) The tenancy agreement between Isotank Container Services Sdn Bhd and KSSC had expired in February 2008.

All the above transactions are conducted in the ordinary course of business, carried out on an arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and will not be detrimental to our minority shareholders.

We will make disclosures in our annual report of the aggregate value of the recurrent related party transactions entered into by us based on the nature of the transactions made, names of the related parties involved and their relationship with our Group during the financial year and in the annual reports for the subsequent financial years.

After our Listing, we will procure a mandate from our shareholders, if necessary, for all our recurrent related party transactions of revenue and trading in nature or those necessary for our day-to-day operations. Further, the interested persons shall abstain from voting on the resolution(s) pertaining to the respective transactions.

**9. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)****9.2 TRANSACTIONS THAT ARE UNUSUAL IN NATURE OR CONDITION**

As at the LPD, there is no transaction that was unusual in its nature or condition, involving goods, services, tangible or intangible assets, to which our Group or our subsidiary was a party in respect of the past three (3) financial years and the subsequent financial period, thereof, if any, immediately preceding the date of this Prospectus.

**9.3 OUTSTANDING LOANS**

Save as disclosed below, there are no outstanding loans (including guarantees of any kind) made by our Company and/or subsidiary to/for the benefit of the related parties for the past three (3) financial years and the subsequent financial period thereof immediately preceding the date of this Prospectus.

Transacting party	Nature of transaction	FYE 31 December			FPE 31 August
		2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000
EIE, our associate company	Balance due from EIE (non-interest bearing)	-	-	*1,250	* 1,880

**Note:-**

- \* The said advances are short term in nature as it is unsecured, interest free and repayable on demand. The advances were made for the working capital of EIE.

Any future transactions which involve the interests of our Directors, substantial shareholders, key management and/or persons connected to them will be transacted at arm's length, and on normal commercial terms which are not more favourable to the related parties than those generally available to the public, and are not to the detriment of the minority shareholders. The Audit Committee will supervise the terms of all our related party transactions, and our Board will report such transactions, if any, in our annual reports.

**9.4 INTERESTS IN A SIMILAR BUSINESS**

Save as disclosed in **Section 9.5** of this Prospectus as at the LPD, to the best knowledge and belief of our Board, none of our substantial shareholders, directors and/or key management and technical personnel of our Group are interested, directly or indirectly in any other similar assets, businesses or interest in Malaysia.

**9.5 INTERESTS IN OTHER BUSINESS WHICH ARE OUR CUSTOMERS OR SUPPLIERS**

As at the LPD, save as disclosed below, none of our substantial shareholders, directors and/or key management and technical personnel of our Group are interested, directly or indirectly in any other businesses and corporation which are our Group's customers and suppliers:-

Customers	Interested substantial shareholders/ common directors
EIE Industrial	<p>TTH, a subsidiary of KSSC sells conveyer-belt, ceramic fiber blankets, cables, stainless steel flat bars and industrial hardware to EIE Industrial.</p> <p>Koh Seng Kar @ Koh Hai Sew is a substantial shareholder of EIE Industrial via our associate company, EIE Asian Holding Sdn Bhd.</p> <p>Koh Seng Lee is a director and substantial shareholder of EIE Industrial via our associate company, EIE Asian Holding Sdn Bhd.</p>

**9. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

Customers	Nature of transaction	Interested substantial shareholders/ common directors
EIE Pulp	TTH, a subsidiary of KSSC sells industrial cleaning wipes and safety absorbents to EIE Pulp.	Koh Seng Kar @ Koh Hai Sew is a substantial shareholder of EIE Pulp via our associate company EIE Asian Holding Sdn Bhd.  Koh Seng Lee is the director and substantial shareholder of EIE Pulp via our associate company, EIE Asian Holding Sdn Bhd.

The Board is of the opinion that our business dealings with EIE Industrial and EIE Pulp do not give rise to a situation of conflict of interest as:-

- (a) EIE Industrial is involved in the trading of industrial hardware for various end user industries including the mining and quarry industry whereas our Group is involved in the manufacturing and processing of stainless steel products and trading of industrial hardware. Presently, we do not supply our products directly to the mining and quarry market as we have our own distinct target markets, being stainless steel fabricators, manufacturers, shipbuilders, architects and building contractors, and industrial hardware wholesalers and retailers.

The transactions between our Group and EIE Industrial are in the ordinary course of business, on an arm's length basis and transacted on normal commercial terms. For the eight (8) months FPE 31 August 2010, total sales revenue to EIE Industrial was RM0.43 million, representing only 0.88% of our total revenue for the eight (8) months FPE 31 August 2010.

- (b) EIE Pulp is primarily involved in the trading and dealing of paper and pulp (i.e., industrial cleaning wipes and safety absorbents) and as such serves a different set of customers compared to our Group.

The transactions between the KSSC Group and EIE Pulp are in the ordinary course of business, on an arm's length basis and transacted on normal commercial terms. For the eight (8) months FPE 31 August 2010, total sales revenue to EIE Pulp was RM0.38 million which represents only 0.78% of our total revenue.

- (c) EIE Industrial and EIE Pulp are subsidiaries of EIE, which is an associate company of our Group. In addition, our Managing Director, Koh Seng Kar and Deputy Managing Director, Koh Seng Lee are not directly involved in the day-to-day operations of the EIE group. Furthermore, EIE contributed only RM0.24 million to our PAT in the eight (8) months FPE 31 August 2010.

**9.6 PROMOTION OF ANY MATERIAL ASSETS ACQUIRED / TO BE ACQUIRED**

None of our Directors and substantial shareholders have any interest, direct or indirect, in any promotion of, or in, any material asset, within the three (3) most recent completed financial years and the subsequent financial period thereof immediately preceding the date of this Prospectus, acquired or disposed of by, or leased to us or our subsidiary, or is proposed to be acquired or disposed of by or leased to us or our subsidiary.

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**9. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

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**9.7 DECLARATION BY ADVISERS**

OSK confirms that there is no equity and/or financial relationship with our Group that has resulted or may result in a potential conflict of interest in its capacity as the Adviser, Underwriter and Placement Agent to our Group for the Listing.

Messrs Ernst & Young has given its written confirmation that there is no existing or potential conflict of interest in its capacity as the Reporting Accountants for the Listing.

Messrs Tay & Helen Wong has given its written confirmation that there is no existing or potential conflict of interest in its capacity as the Solicitors for the Listing.

Vital Factor Consulting Sdn Bhd has given its written confirmation that there is no existing or potential conflict of interest in its capacity as the Independent Business and Market Research Consultants for the Listing.

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**10. FINANCIAL INFORMATION****10.1 HISTORICAL FINANCIAL INFORMATION****10.1.1 Proforma consolidated income statements**

The following table sets forth a summary of our proforma consolidated income statements for the past three (3) FYE up to 31 December 2009, and for the eight (8) months FPE 31 August 2010 based on the assumption that we have been in existence throughout the financial years and periods under review. The proforma consolidated income statements are presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter as set forth in **Section 10.2** of this Prospectus and our Management's Discussion and Analysis of Financial Conditions, Results of Operations and Prospects that are presented in **Section 10.3** of this Prospectus:-

	Audited			Unaudited	Audited
	FYE 31 December			FPE 31 August	FPE 31
	2007	2008	2009	2009*	August 2010
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>	<b>76,707</b>	<b>78,998</b>	<b>80,081</b>	<b>50,777</b>	<b>48,179</b>
Cost of sales	(61,254)	(66,146)	(66,075)	(42,399)	(39,459)
<b>Gross profit</b>	<b>15,453</b>	<b>12,852</b>	<b>14,006</b>	<b>8,378</b>	<b>8,720</b>
Other income	265	3,359	473	248	121
Selling and distribution costs	(1,053)	(1,137)	(1,029)	(655)	(765)
Administrative expenses	(2,036)	(2,112)	(2,045)	(1,381)	(1,281)
Other expenses	(1,383)	(946)	(1,087)	(491)	(1,111)
<b>Operating profit</b>	<b>11,246</b>	<b>12,016</b>	<b>10,318</b>	<b>6,099</b>	<b>5,684</b>
Finance costs	(1,285)	(1,208)	(1,042)	(859)	(672)
Share of results from associate	175	297	66	(20)	236
<b>PBT</b>	<b>10,136</b>	<b>11,105</b>	<b>9,342</b>	<b>5,220</b>	<b>5,248</b>
Income tax expense	(2,633)	(2,216)	(2,193)	(1,496)	(1,488)
<b>PAT</b>	<b>7,503</b>	<b>8,889</b>	<b>7,149</b>	<b>3,724</b>	<b>3,760</b>
No. of Shares in issue ('000) <sup>(1)</sup>	75,876	75,876	75,876	75,876	75,876
<b>EBITDA (RM'000)</b>	<b>12,419</b>	<b>13,272</b>	<b>11,342</b>	<b>6,698</b>	<b>6,721</b>
Gross EPS (sen) <sup>(1)</sup>	13.36	14.64	12.31	6.88	6.92
Net EPS (sen) <sup>(2)</sup>	9.89	11.72	9.42	4.91	4.96
Gross profit margin (%)	20.15	16.27	17.49	16.50	18.10
PBT margin (%)	13.21	14.06	11.67	10.28	10.89
PAT margin (%)	9.78	11.25	8.93	7.33	7.80

**Notes:-**

\* Unaudited and stated for illustrative purposes only as a comparative.

(1) The gross EPS is calculated based on the PBT attributable to our shareholders for the respective financial years/periods divided by the number of Shares in issue.

(2) The net EPS is calculated based on the PAT attributable to our shareholders for the respective financial years/periods divided by the number of Shares in issue.

**10. FINANCIAL INFORMATION (Cont'd)****10.1.2 Proforma consolidated balance sheets**

We have prepared our proforma consolidated balance sheets below for illustrative purposes to show the effects on the audited consolidated balance sheet of our Group as at 31 August 2010, had the IPO been effected on that date. We advise you to read the proforma consolidated balance sheets together with the accompanying notes and assumptions included in the Reporting Accountants' Letter as set out in Section 10.2 of this Prospectus.

	As at 31 August 2010 RM'000	Proforma I After Acquisition of PTM RM'000	Proforma II After Proforma I and Public Issue RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17,260	17,260	17,260
Investment in an associate	2,223	2,223	2,223
Goodwill on consolidation	141	217	217
	19,624	19,700	19,700
<b>Current assets</b>			
Inventories	20,467	20,467	20,467
Trade and other receivables	27,693	27,693	27,452
Tax recoverable	138	138	138
Cash and bank balances	8,724	8,724	18,963
	57,022	57,022	67,020
<b>TOTAL ASSETS</b>	<b>76,646</b>	<b>76,722</b>	<b>86,720</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the company</b>			
Share capital	37,500	37,938	48,000
Share premium	-	-	1,010
Retained profits	9,070	9,070	7,996
	46,570	47,008	57,006
MI	362	-	-
<b>Total Equity</b>	<b>46,932</b>	<b>47,008</b>	<b>57,006</b>

## 10. FINANCIAL INFORMATION (Cont'd)

	As at 31 August 2010 RM'000	Proforma I After Acquisition of PTM RM'000	Proforma II After Proforma I and Public Issue RM'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	91	91	91
Hire purchase payables	413	413	413
Borrowings	3,271	3,271	3,271
	3,775	3,775	3,775
<b>Current liabilities</b>			
Trade and other payables	4,352	4,352	4,352
Current tax payable	208	208	208
Hire purchase payables	270	270	270
Borrowings	21,109	21,109	21,109
	25,939	25,939	25,939
<b>Total liabilities</b>	29,714	29,714	29,714
<b>TOTAL EQUITY AND LIABILITIES</b>	76,646	76,722	86,720
Number of shares assumed in issue ('000)	75,000	75,876	96,000
NA	46,570	47,008	57,006
NA per share (RM)	0.62	0.62	0.59

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**10. FINANCIAL INFORMATION (Cont'd)**

**10.2 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION**



(Prepared for inclusion in this Prospectus)

The Board of Directors  
K. Seng Seng Corporation Berhad  
No. 3707, Jalan 7/5  
Taman Industri Selesa Jaya  
43300 Balakong  
Selangor Darul Ehsan

**Ernst & Young**  
AF: 0039  
Level 23A, Menara Milenium  
Jalan Damansara  
Pusat Bandar Damansara  
50490 Kuala Lumpur, Malaysia  
Mail address: P.O. Box 11040  
50734 Kuala Lumpur, Malaysia  
Tel: +603 7495 8000  
Fax: +603 2095 5332 (General line)  
+603 2095 9076  
+603 2095 9078  
[www.ey.com](http://www.ey.com)

29 October 2010

Dear Sirs,

**K. Seng Seng Corporation Berhad ("KSSC")  
Reporting accountants' letter on the proforma consolidated financial information**

We report on the proforma consolidated financial information of KSSC and its subsidiaries ("KSSC Group") as set out in the accompanying Notes, which we have stamped for the purpose of identification.

The proforma consolidated financial information have been prepared for illustrative purposes only on the basis of assumptions as set out in the Notes and after making certain adjustments to show what:

- (a) the proforma consolidated financial results of KSSC Group for the three (3) financial years ended 31 December 2007 to 2009 and for the eight months financial period ended 31 August 2010 that would have been, if the group structure as at the date of the Prospectus has been in existence since the beginning of the years/period being reported thereon;
- (b) the proforma consolidated statement of financial position of KSSC Group as at 31 August 2010 that would have been, if the group structure as at the date of the Prospectus has been in existence on that date, adjusted for the acquisition of 24% of equity interest in PTM, the public issue and the utilisation of funds; and
- (c) the proforma consolidated statement of cash flows of KSSC Group for the eight months financial period ended 31 August 2010 that would have been, if the group structure as at the date of the Prospectus has been in existence since the beginning of the financial period, adjusted for the proceeds from the public issue and the utilisation of funds from the public issue.

The proforma consolidated financial information, because of its nature, may not be reflective of KSSC Group's actual financial results, financial position and cash flows. Furthermore, such information does not purport to predict the future financial results, position and cash flows of KSSC Group.

**10. FINANCIAL INFORMATION (Cont'd)**

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**K. Seng Seng Corporation Sdn. Bhd.****Reporting accountants' letter on the proforma consolidated financial information (contd.)**

This report is required by and is given for the purpose of complying with the Prospectus Guidelines issued by the Securities Commission ("Prospectus Guidelines") and for no other purpose.

**Responsibilities**

It is the sole responsibility of the Directors of KSSC to prepare the proforma consolidated financial information in accordance with the requirements of the Prospectus Guidelines.

It is our responsibility to form an opinion, as required by the Prospectus Guidelines as to the proper compilation of the proforma consolidated financial information and to report our opinion to you.

In providing this opinion we are not responsible in updating or refreshing any reports or opinion previously made by us on any financial information used in the compilation of the proforma consolidated financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinion were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our work in accordance with Malaysian Approved Standard on Assurance, ISAE 3000 - Assurance Engagements Other Than Audit or Review of Historical Information. Our work consisted primarily comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the proforma consolidated financial information with the responsible officers of KSSC. Our work involved no independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the proforma consolidated financial information have been properly compiled on the basis stated using financial statements prepared in accordance with Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies of KSSC. Our work also involves assessing whether the adjustments made to the information used in the preparation of the proforma consolidated financial information are appropriate for the purposes of preparing the proforma consolidated financial information.

**10. FINANCIAL INFORMATION (Cont'd)**



**K. Seng Seng Corporation Sdn. Bhd.**

**Reporting accountants' letter on the proforma consolidated financial information (contd.)**

**Opinion**

In our opinion:

- (i) the proforma consolidated financial information, which have been prepared by the Directors of KSSC, have been properly prepared on the basis stated in the accompanying Notes using audited financial statements of KSSC Group which have been prepared in accordance with the Financial Reporting Standards in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies adopted by KSSC; and
- (ii) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing such financial information.

**Other matters**

This letter is issued for the sole purpose of complying with the Prospectus Guideline in connection with the Public Issue and the Listing. Our work had been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this letter is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Public Issue and Listing described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or relied upon, this letter in connection with any type of transaction, including the sale of securities other than the Public Issue and the Listing.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Ernst &amp; Young'.

Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia

A handwritten signature in black ink, appearing to be 'Lee Seng Huat'.

Lee Seng Huat  
No. 2518/12/11(J)  
Chartered Accountant

**10. FINANCIAL INFORMATION (Cont'd)****ERNST & YOUNG** (AF: 0039)Chartered Accountants, Kuala Lumpur  
For identification purposes only**K. SENG SENG CORPORATION BERHAD  
(Incorporated in Malaysia)****NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION****1.0 Introduction**

The proforma consolidated financial information, comprising the proforma consolidated financial results for the three (3) financial years ended 31 December 2009 and for the eight months financial period ended 31 August 2010, the proforma consolidated statement of financial position as at 31 August 2010, and the proforma consolidated statement of cash flows for the financial period ended 31 August 2010 have been prepared for inclusion in the Prospectus of K. Seng Seng Corporation Berhad in connection with the listing of KSSC on the Main Market of Bursa Malaysia Securities Berhad.

**2.0 Abbreviations**

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

EAHSB	EIE Asian Holding Sdn Bhd
FYE	Financial year ended
Group or KSSC Group	KSSC and its subsidiaries namely KSSI, PTM, TTH, KSSM and SSG
KSSC or Company	K. Seng Seng Corporation Berhad
KSSI	K. Seng Seng Industries Sdn Bhd
MITI	Ministry of International Trade and Industry
PTM	PTM Steel Industry Sdn Bhd
RM and sen	Ringgit Malaysia and sen respectively
TTH	Three & Three Hardware Sdn Bhd
KSSM	K. Seng Seng Manufacturing Sdn Bhd
SSG	SSG Industries Sdn Bhd
KSSC shares	Ordinary shares of RM0.50 each in KSSC

**10. FINANCIAL INFORMATION (Cont'd)**

 **ERNST & YOUNG** (AF: 0039)  
Chartered Accountants, Kuala Lumpur  
For identification purposes only

**3.0 Listing Scheme****3.1 Acquisition**

On 24 July 2009, KSSC entered into a conditional share sale agreement with the vendors of PTM for the acquisition of 588,000 ordinary shares of RM1.00 each ("Sale Shares"), representing 24% equity interest in PTM for a purchase consideration of RM250,000 which was to be fully satisfied by the issuance of 500,000 KSSC Shares to the respective vendors of PTM at an issue price of RM0.50 per KSSC Share ("Principal Agreement").

On 8 March 2010, KSSC and the vendors of PTM entered into a supplemental share sale agreement to revise certain terms and conditions of the Principal Agreement, particularly the purchase consideration of the Sale Shares. Both parties, KSSC and the vendors of PTM have mutually agreed to revise the purchase consideration of the Sale Shares from RM250,000 to RM438,000, which was fully satisfied by the issuance of 876,000 KSSC Shares to the respective vendors of PTM at an issue price of RM0.50 per KSSC Share. All other terms and conditions of the Principal Agreement shall prevail and will remain binding to KSSC and the vendors.

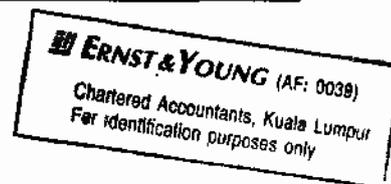
The Acquisition was completed on 1 October 2010.

**3.2 Offer for Sale**

The offer for sale of 22,200,000 KSSC Share representing 23.13% of the enlarged issued and paid-up share capital of KSSC will be offered to identified investors at an offer price of RM0.57 per share, payable in full upon application.

**3.3 Public Issue**

In conjunction with the Offer for Sale, KSSC will implement a public issue of 20,124,000 new KSSC shares representing 20.96% of the enlarged issued and paid-up share capital of KSSC at an issue price of RM0.57 per share, payable in full upon application.

**10. FINANCIAL INFORMATION (Cont'd)****3. Listing Scheme (contd.)****3.4 Listing**

Upon completion of the Public Issue and Offer for Sale, KSSC will seek the listing of and quotation for its entire enlarged issued and paid-up share capital, comprising 96,000,000 KSSC Shares on the Main Market of the Bursa Malaysia Securities Berhad.

**4.0 Basis of preparation of proforma consolidated financial information**

**4.1** The proforma consolidated financial information has been prepared to illustrate:

- (a) the financial results of the Group for the three financial years ended 31 December 2007, 2008 and 2009 and for the eight months financial period ended 31 August 2010 that would have been, if the group structure as at the date of the Prospectus has been in existence throughout the financial years/period under review;
- (b) the financial position of the Group as at 31 August 2010 that would have been, if the group structure as at the date of the Prospectus has been in existence on that date, adjusted for the Acquisition, Proposed Public Issue and Utilisation of Funds; and
- (c) the cash flows of the Group for the financial period ended 31 August 2010 that would have been, if the group structure as at the date of the Prospectus has been in existence throughout the financial period ended 31 August 2010, adjusted for the proceeds from the public issue and the utilisation of funds.

**4.2** The proforma financial information have been prepared for illustrative purposes, based on the audited financial statements of the Group for the three financial years ended 31 December 2007 to 2009 and for the eight months financial period ended 31 August 2010 using the bases and accounting principles consistent with those adopted by KSSC, after giving effect to the proforma adjustments which is considered appropriate.

The audited financial statements of the Group for the eight months financial period ended 31 August 2010 and for the three financial years ended 31 December 2007 to 2009 have been prepared in accordance with the Financial Reporting Standards in Malaysia.

**4.3** The auditors' reports on the respective financial statements were not subject to any qualifications or modifications for all the financial years/period under review except for our auditors' report in respect of the audit of the eight months ended 31 August 2010 that contained an emphasis of matter which stated that the comparative figures for statement of comprehensive income, statements of cash flows and statements of changes in equity and the notes thereto are unaudited.

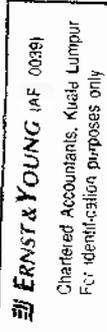
## 10. FINANCIAL INFORMATION (Cont'd)

## 5.0 Proforma Consolidated Financial Results of KSSC Group

5.1 The proforma consolidated financial results for the eight months financial period ended August 2010 and three financial years ended 31 December 2007 to 2009, which have been prepared for illustrative purposes to show the aggregate results of the Group, are based on accounting policies consistent with those adopted in the preparation of the audited financial statements of KSSC and its subsidiaries and are prepared on the assumption that the current structure of the Group existed throughout the financial period/years under review.

	<----- 12 months ended 31 December ----->			1.01.2010	to	31.08.2010
	FYE 2007	FYE 2008	FYE 2009	RM'000	RM'000	RM'000
Revenue	76,707	78,998	80,081			48,179
Cost of sales	(61,254)	(66,146)	(66,075)			(39,459)
Gross profit	15,453	12,852	14,006			8,720
Other income	265	3,359	473			121
Selling and distribution expenses	(1,053)	(1,137)	(1,029)			(765)
Administrative expenses	(2,036)	(2,112)	(2,045)			(1,281)
Other expenses	(1,383)	(946)	(1,087)			(1,111)
Finance costs	(1,285)	(1,208)	(1,042)			(672)
Share of results of associate	175	297	66			236
Profit before tax	10,136	11,105	9,342			5,248
Income tax expense	(2,633)	(2,216)	(2,193)			(1,488)
Profit for the years/period	7,503	8,889	7,149			3,760
<b>Attributable to:</b>						
Equity holders of the Company	7,503	8,889	7,149			3,760

## 10. FINANCIAL INFORMATION (Cont'd)



## 5.0 Proforma Consolidated Financial Results of KSSC Group (cont'd.)

Number of ordinary shares assumed in issue ('000) *	75,876	75,876	75,876	75,876
Gross earnings per share (RM)	0.13	0.15	0.12	0.07
Net earnings per share (RM)	0.10	0.12	0.09	0.05
Net profit margin (%)	9.78	11.25	8.93	7.80
Earnings before interest, taxation and depreciation (RM'000)	12,419	13,272	11,342	6,721

\* Based on the number of ordinary shares before the Public Issue.

## 5.2 Notes to the Proforma Consolidated Financial Results

The proforma consolidated financial results for the three financial years ended 31 December 2007, 2008 and 2009 and for the eight months ended 31 August 2010 are prepared based on the statements of comprehensive income of the Group for the three financial years ended 31 December 2007, 2008 and 2009 and for the eight months financial period ended 31 August 2010 and are adjusted for:

- (i) The acquisition of subsidiaries, namely KSSM and SSG, in FYE 2009 using the pooling of interest method.
- (ii) The Acquisition of PTM as disclosed in Note 3.1.
- (iii) The results of MT Global Technologies Sdn. Bhd. ("MTGT") were not included in the proforma consolidated financial results as MTGT was disposed in FYE 2008.
- (iv) Certain amounts have been reclassified to be consistent with the presentation of prospectus.

## 10. FINANCIAL INFORMATION (Cont'd)

## 6.0 Proforma Consolidated Statements of Financial Position

The proforma consolidated statements of financial position of the Group as set out below are prepared solely for illustrative purposes only to show the effect of the transactions as mentioned above on the assumption that the transactions were completed on 31 August 2010.

	Audited Group Balance Sheet as at 31 Aug 2010 RM'000	Adjustment for Acquisition RM'000	(I) Proforma Group after Acquisition RM'000	Adjustments for Public Issue and utilisation of funds RM'000	(II) Proforma Group after Public Issue and utilisation of funds RM'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	17,260		17,260		17,260
Investment in associate	2,223		2,223		2,223
Goodwill on consolidation	141	76	217		217
	<u>19,624</u>		<u>19,700</u>		<u>19,700</u>
<b>Current assets</b>					
Inventories	20,467		20,467		20,467
Trade and other receivables	27,693		27,693	(241)	27,452
Tax recoverable	138		138		138
Cash and bank balances	8,724		8,724	10,239	18,963
	<u>57,022</u>		<u>57,022</u>		<u>67,020</u>
<b>TOTAL ASSETS</b>	<u>76,646</u>		<u>76,722</u>		<u>86,720</u>

## 10. FINANCIAL INFORMATION (Cont'd)

## 6.0 Proforma consolidated statements of financial position (contd.)

	Audited Group Balance Sheet as at 31 Aug 2010 RM'000	Adjustment for Acquisition RM'000	(I) Proforma Group after Acquisition RM'000	Adjustments for Public Issue and utilisation of funds RM'000	(II) Proforma Group after Proforma (I), Public Issue and utilisation of funds RM'000
<b>EQUITY AND LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	4,352		4,352		4,352
Current tax payable	208		208		208
Hire purchase payables	270		270		270
Borrowings	21,109		21,109		21,109
	<u>25,939</u>		<u>25,939</u>		<u>25,939</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	91		91		91
Hire purchase payables	413		413		413
Borrowings	3,271		3,271		3,271
	<u>3,775</u>		<u>3,775</u>		<u>3,775</u>
<b>Total liabilities</b>	<u>29,714</u>		<u>29,714</u>		<u>29,714</u>
<b>Net current assets</b>	<u>31,083</u>		<u>31,083</u>		<u>41,081</u>

## 10. FINANCIAL INFORMATION (Cont'd)

## 6.0 Proforma consolidated statements of financial position (contd.)

	Audited Group Balance Sheet as at 31 Aug 2010 RM'000	Adjustment for Acquisition RM'000	(I) Proforma Group after Acquisition RM'000	Adjustments for Public Issue and utilisation of funds RM'000	(II) Proforma Group after Public Issue and utilisation of funds RM'000
<b>Equity</b>					
Share capital	37,500	438	37,938	10,062	48,000
Share premium	-	-	-	1,010	1,010
Retained profits	9,070	-	9,070	(1,074)	7,996
	<u>46,570</u>		<u>47,008</u>		<u>57,006</u>
Minority interest	362	(362)	-	-	-
<b>Total equity</b>	<u>46,932</u>		<u>47,008</u>		<u>57,006</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>76,646</u>		<u>76,722</u>		<u>86,720</u>
Number of ordinary shares in issue ('000)	75,000		75,876		96,000
Net assets (RM'000)	46,570		47,008		57,006
Net assets per share (RM'000)	0.62		0.62		0.59

**10. FINANCIAL INFORMATION (Cont'd)**

**EY ERNST & YOUNG.**  
Chartered Accountants Kuala Lumpur  
For identification purposes only

**6.1 Notes to the proforma consolidated statements of financial position**

The proforma consolidated statements of financial position include, on a proforma basis, the following transactions assuming they were effected on 31 August 2010:

**Proforma (I)**

Proforma (I) incorporates the effects of the Acquisition of shares from the minority shareholders of PTM as set out in Section 3.1 above. The purchase consideration of the Acquisition of RM438,000 will be fully satisfied by issuance of 876,000 KSSC shares. As a result of the Acquisition, PTM became the wholly owned subsidiary of KSSC.

**Proforma (II)**

Proforma (II) incorporates the effects of Proforma (I) and the Public Issue of 20,124,000 new ordinary shares of RM0.50 each in KSSC at RM0.57 per share as set out in Section 3.3 and proposed utilisation of the gross proceeds from the Public Issue of RM11,470,680 as follows:

	<b>RM'000</b>
Buisness expansion and capital expenditure	3,310
Working capital	6,260
Estimated listing expenses	1,900
	<u>11,470</u>

RM399,000 of the listing expenses will be set off against share premium whilst the remaining expenses in connection with the Public Issue and listing of RM1,255,078 are debited to current year income statement, RM245,922 was debited in 2009 income statement.

**10. FINANCIAL INFORMATION (Cont'd)**

**ERNST & YOUNG** (AF: 0039)  
Chartered Accountants, Kuala Lumpur  
For identification purposes only

**7.0 Proforma consolidated statements of cash flows**

The proforma consolidated statements of cash flows of the Group for the eight months financial period ended 31 August 2010, which has been prepared for illustrative purposes only, is based on the assumption that the current structure of the Group existed throughout the financial period/years under review.

	<b>After the Proposed Public Issue RM</b>
<b>Cash Flows from Operating Activities</b>	
Cash receipts from customers	47,853
Cash paid to suppliers and employees	(44,458)
Cash generated from operations	<u>3,395</u>
Tax paid	(1,627)
Net cash generated from operating activities	<u>1,768</u>
<b>Cash Flows from Investing Activities</b>	
Purchase of property, plant and equipment	(786)
Proceeds from disposal of property, plant and equipment	24
Interest received	50
Net cash used in investing activities	<u>(712)</u>
<b>Cash Flows from Financing Activities</b>	
Proceeds from public issue	11,471
Estimated listing expenses	(1,232)
Net repayment of term loans	(188)
Repayment of hire purchase payables	(345)
Net drawdown of bankers' acceptance	259
Drawdown of trust receipts	38
Dividend paid	(3,000)
Interest paid	(672)
Net cash generated from financing activities	<u>6,331</u>
<b>Net increase in cash and bank balances</b>	<b>7,387</b>
<b>Cash and bank balances at beginning of the period</b>	<b>11,576</b>
<b>Cash and bank balances at end of the period</b>	<b><u>18,963</u></b>

Out of the estimated listing expenses of RM1,900,000 as disclosed in Note 6.1, the amount of RM310,000 has been paid in FYE 2009 and the amount of RM358,000 has been paid in FPE 31 August 2010. The remaining estimated listing expenses of RM1,232,000 has been incorporated in the proforma consolidated statements of cash flows.

## 10. FINANCIAL INFORMATION (Cont'd)

### 10.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS, RESULTS OF OPERATIONS AND PROSPECTS

The following management's discussion and analysis of our Group's financial conditions and results of operations should be read in conjunction with the proforma consolidated financial information and the accompanying notes for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 included in Section 10.1 and 10.2 of this Prospectus.

The discussion and analysis contains data derived from our audited financial statements as well as forward-looking statements that involves risks and uncertainties. The results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 4 of this Prospectus.

#### 10.3.1 Brief Overview of our financial results

We are principally an investment holding company whilst our subsidiaries are principally involved in the following activities:-

- (a) manufacturing of secondary stainless steel products namely tubes, pipes, industrial fasteners, rigging accessories and components;
- (b) processing of secondary stainless steel flat and long products namely sheets, round bars, flats and angles; and
- (c) trading of industrial hardware including marine hardware and consumables.

Please refer to Section 5.7 of this Prospectus for our Group's detailed business overview.

#### Revenue

Our principal source of revenue is derived from our manufacturing, processing and trading operations.

Our core revenue stream is mainly derived from the sales of our secondary stainless steel products, comprising of stainless steel tubes and pipes, industrial fasteners and processed stainless steel sheets and bars. The sales of our secondary stainless steel products collectively contributed approximately 74.73%, 76.53%, 72.78% and 67.95% to our Group's total revenue for the past three (3) years up to 31 December 2009 and eight (8) months FPE 31 August 2010 respectively. The remaining revenue is derived from the sale of industrial hardware from our trading operations.

For the past three (3) FYE 31 December 2009 and eight (8) months FPE 31 August 2010, most of our products were sold to industrial hardware wholesalers and retailers, who service our end-users, comprising amongst others, manufacturers, stainless steel fabricators, shipbuilders, architects and building contractors. We also sell some of our products directly to these end user industries.

Leveraging on our extensive range of manufactured and processed secondary stainless steel products as well as our tradable industrial hardware, we are well positioned to supply the needs of a large customer base in a diverse range of end-user industries. We currently have a wide and active customer base of approximately 1,000 customers spread across six (6) countries, including Malaysia. Our large customer base will provide us with the platform to sustain and grow our business.

**10. FINANCIAL INFORMATION (Cont'd)**

Our revenue is also segmented geographically between domestic and overseas markets, of which local market sales has contributed approximately 75.87%, 64.10%, 72.81% and 81.62% to our total revenue for the past three (3) FYE 31 December 2009 and eight (8) months FPE 31 August 2010 respectively. For the past three (3) financial years and the eight (8) months financial period under review, our Group has been expanding our overseas market mostly through the indirect distribution strategy wherein we export to the industrial hardware wholesalers and retailers based in the respective countries. Presently, our export markets include Singapore, Indonesia, Papua New Guinea, United Kingdom and Brunei. Moving forward, we also intend to widen our coverage overseas by exporting to Thailand, Vietnam and Philippines as disclosed in **Section 5.9(b)** of this Prospectus.

The selling prices of our secondary stainless steel products generally depend on and reflect the current market prices of stainless steel as:-

- (b) these raw materials constitute a large element of the cost of sales of our manufacturing and processing operations; and
- (c) the current prices of stainless steel would form part of the quotation to our customers.

For our trading operations, the selling price of industrial hardware is mainly dependant on the prevailing economic conditions given its wide and common applications.

In summary, the main factors affecting the revenues of our Group are as follows:-

- (i) the prevailing economic and market demand conditions for our secondary stainless steel products and industrial hardware from our trading operations;
- (ii) expansion of our distribution network and customer base;
- (iii) the fluctuation of raw materials prices for our manufacturing and processing operations as well as industrial hardware for our trading operations; and
- (iv) the outlook and prospects of our target markets.

For further information on the factors affecting the revenue of our Group, please refer to **Section 10.3.3** of this Prospectus.

**Order book**

Our Group does not receive long-term orders from our customers and as such does not maintain an order book. The nature of our business is such that we receive orders from our customers based on purchase orders with specifications such as product type, size and quantity.

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**10. FINANCIAL INFORMATION (Cont'd)****Cost of sales**

Our cost of sales comprises the costs of raw materials, direct labour, production overheads and purchase of industrial hardware for our trading operations.

	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
<b>For our manufacturing and processing operations:</b>						
Raw materials	41,888	68.38	48,290	73.01	45,735	69.22
Direct labour	1,151	1.88	1,365	2.06	1,317	1.99
Production overheads	1,241	2.03	1,279	1.93	1,394	2.11
	<b>44,281</b>	<b>72.29</b>	<b>50,934</b>	<b>77.00</b>	<b>48,446</b>	<b>73.32</b>
<b>For our trading operations:</b>						
Purchase of industrial hardware <sup>(1)</sup>	16,974	27.71	15,212	23.00	17,629	26.88
<b>Total cost of sales</b>	<b>61,254</b>	<b>100.00</b>	<b>66,146</b>	<b>100.00</b>	<b>86,075</b>	<b>100.00</b>

	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
<b>For our manufacturing and processing operations:</b>				
Raw materials	29,432	69.42	24,028	60.89
Direct labour	843	1.99	882	2.24
Production overheads	837	1.97	1,118	2.83
	<b>31,112</b>	<b>73.38</b>	<b>26,028</b>	<b>65.96</b>
<b>For our trading operations:</b>				
Purchase of industrial hardware <sup>(1)</sup>	11,287	26.62	13,431	34.04
<b>Total cost of sales</b>	<b>42,399</b>	<b>100.00</b>	<b>39,459</b>	<b>100.00</b>

**Note:**

(1) Include amongst others, purchase of industrial hardware and movement of inventories.

**Raw materials**

Costs of raw materials accounted for a significant portion of our total costs of sales for our manufacturing and processing operations, constituting approximately 94.60%, 94.81%, 94.40% and 92.32% of the total costs of sales of our manufacturing and processing operations for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively.

**10. FINANCIAL INFORMATION (Cont'd)**

Stainless steel coils and stainless steel round bars are the main raw materials used by our Group for the manufacturing and processing of our secondary stainless steel products. These raw materials are sourced from overseas given that there are no producers of primary stainless steel raw materials in Malaysia. For the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively, we have procured these raw materials based on the pricing, availability/lead time for delivery and quality of the raw materials from a wide base of suppliers. Hence, we are not overly dependent on any particular supplier and believe that we can easily source our raw material from alternative suppliers, if the need arises.

In general, any increase in cost of raw materials can be passed through to our customers as the cost of raw materials would form part of the price quotation to the customers.

In summary, the key factors affecting raw material purchases are set out as follows:-

- (i) the demand and supply forces for main materials consumed in the manufacturing and processing of secondary stainless products, in particular stainless steel coils and stainless steel round bars; and
- (ii) our ability to obtain competitive pricing from our suppliers and the availability of secondary stainless steel products in the market.

In the past three (3) financial years and the eight (8) months financial period under review, a higher consumption of raw materials was reported in the FYE 31 December 2008. The increase in the consumption of raw material was primarily due to the increase in manufacturing and production of stainless steel tubes and pipes as well as processed sheets in view of the favourable demand for the secondary stainless steel products in the first half of 2008. Our management subsequently implemented tighter control measures over our raw material purchases and emphasized on prudent monitoring of our raw material stock level in the subsequent financial year as the prices of stainless steel declined sharply amidst the impact of the global economic crisis in the first half of the FYE 31 December 2009.

**Direct labour**

Our direct labour mainly comprises salaries, wages, bonuses and other staff-related cost for employees who are directly involved in our production activities. These labour costs are affected by wage levels, production staff headcount, number of working hours and labour market conditions.

Direct labour cost was fairly consistent representing approximately 2.7% of our total cost of sales of our manufacturing and processing operations over the past three (3) financial years. For the eight (8) months FPE 31 August 2010, our direct labour costs amounted to approximately RM0.8 million, which was fairly consistent with the direct labour costs reported in the previous corresponding financial period.

**Production overheads**

Production overhead mainly comprises factory utilities, repair and maintenance of plant and machineries, as well as depreciation of plant and machineries and factory building. A gradual upward trend had been reported for the past three (3) financial years. In the eight (8) months FPE 31 August 2010, we reported a higher production overhead of approximately RM1.12 million as compared to RM0.84 million recorded in the corresponding eight (8) months FPE 31 August 2009. The increase in the production overhead was mainly due to increase in the depreciation of plant and machineries arising from the purchase of machineries and equipment for our manufacturing operations in the eight (8) months FPE 31 August 2010.

**10. FINANCIAL INFORMATION (Cont'd)****Purchase of industrial hardware**

Purchase of industrial hardware for our trading operations accounted for approximately 27.71%, 23.00%, 26.68% and 34.04% of our total costs of sales for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively. The industrial hardware are sourced from our suppliers to complement the range of products manufactured and processed by us. This enables us to meet many of our customers' requirements to provide convenience and to enhance customer loyalty. Furthermore, our wide customer base and extensive portfolio of products provides our Group with considerable synergies for cross selling our products to existing and new customers.

Comparing the past three (3) financial years, our Group recorded a lower purchase of industrial hardware in the FYE 31 December 2008. This was mainly due to our management's focus on our manufacturing and processing operations as the prices of stainless steel were still increasing from the previous financial year. However, the prices of stainless steel began to decline in the second half of the FYE 31 December 2008 till the first half of the FYE 31 December 2009 as result of the global economic crisis. In view of the downward trend of stainless steel prices, our management decided to focus on our manufacturing operations as well as our trading operations in the FYE 31 December 2009, which is evidenced by our increased purchases of industrial hardware.

For the eight (8) months FPE 31 August 2010, we increase our purchases of industrial hardware from RM11.29 million recorded in the eight (8) months FPE 31 August 2009 to RM13.43 million. The increase in our purchases was due to management's anticipation of the increase in demand for our marine hardware and consumable products from our existing customer base as a result of our marketing effort on trading operations.

**Other Income**

Our other income for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 were as follows:

	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
Rental income	169	63.77	53	1.58	25	5.29
Gain in foreign exchange	4	1.51	479	14.26	185	39.11
Gain on disposal of property, plant and equipment	-	-	2,347	69.87	38	8.03
Gain on sale of investment <sup>(1)</sup>	-	-	232	6.91	-	-
Others <sup>(2)</sup>	92	34.72	248	7.38	225	47.57
<b>Total</b>	<b>265</b>	<b>100.00</b>	<b>3,359</b>	<b>100.00</b>	<b>473</b>	<b>100.00</b>

**10. FINANCIAL INFORMATION (Cont'd)**

	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
Rental income	17	6.85	16	13.22
Gain in foreign exchange	28	11.29	8	6.61
Gain on disposal of property, plant and equipment	-	-	22	18.18
Gain on sale of investment	-	-	-	-
Others <sup>(2)</sup>	203	81.86	75	61.99
<b>Total</b>	<b>248</b>	<b>100.00</b>	<b>121</b>	<b>100.00</b>

**Notes:**

(1) Disposal of our investment in MT Global Technologies Sdn Bhd.

(2) Includes, amongst others, bad debts recovered, interest income and overdue interest income.

Our other income mainly comprises rental income, gain in foreign exchange and gain on disposal of property, plant and machinery. Our other income contributed approximately 0.35%, 4.25%, 0.59% and 0.24% over our Group's total revenue for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively.

In the past three (3) financial years and the eight (8) months financial period under review, we reported a higher other income in the FYE 31 December 2008. The increase in other income was primarily due to our gain on disposal of two (2) units of semi-detached factory located in Bandar Puchong Jaya, Selangor Darul Ehsan as well as the gain on the sale of our investment.

**Operating expenses**

Our operating expenses comprise selling and distribution costs, administrative expenses and other operating expenses, and in aggregate only represent 5% to 7% of our total revenue for each of the financial years and eight (8) months financial period under review.

Our selling and distribution expenses includes, amongst others, motor vehicle expenses, marketing expenses, travelling and accommodation expenses and delivery charges for our products sold to our customers in various locations. It constituted approximately 1.37%, 1.44%, 1.28% and 1.59% of our revenue for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively.

Administrative expenses mainly comprise staff costs such as directors' remuneration, wages, salaries and other related expenses and professional fees. It constituted 2.65%, 2.67%, 2.55% and 2.66% of our revenue for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively.

Other operating expenses mainly comprise bank charges, allowance for doubtful debts, repair and maintenance, depreciation and utility charges. It constituted approximately 1.80%, 1.20%, 1.36% and 2.31% of our revenue for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively.

**10. FINANCIAL INFORMATION (Cont'd)****Income Tax Expenses**

The Malaysian statutory corporate tax rate applicable for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 was 27%, 26%, 25% and 25% respectively.

Our overall effective tax rates were 25.98%, 19.95%, 23.48% and 28.35% respectively for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively. For the past three (3) FYE 31 December 2009, our overall effective tax rates were lower than the statutory tax rates, which is mainly due to the utilisation of tax incentives in the form of reinvestment allowances under the Income Tax Act, 1976. Comparing the past three (3) FYE 31 December 2009, we recorded the lowest effective tax rate in the FYE 31 December 2008. The low effective tax rate was mainly due to gain on the disposal of our properties (which was tax-exempted under Real Property Gain Tax Act, 1976), the use of unabsorbed losses from our wholly-owned subsidiary, PTM and unutilised capital allowances brought forward from the preceding financial year.

For the eight (8) months FPE 31 August 2010, our effective tax rate of 28.35% was higher than the statutory corporate tax rate of 25%. This was mainly due to certain expenses being non-deductible for tax purposes and deferred tax not recognised on capital allowance.

**10.3.2 Our results of operations****Detailed analysis of revenue and operating profit**

The following tables set out the segmental analysis of our revenue, gross profit and gross profit margin by our subsidiaries, principal activities, products and markets for the respective financial years under review:-

**(a) Revenue**

The breakdown of our revenue by our subsidiaries is as follows:-

Revenue	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
KSSI	64,919	84.63	60,613	76.73	62,839	78.47
PTM	16,574	21.61	13,102	16.58	20,634	25.77
TTH	16,618	21.66	18,674	23.64	21,716	27.12
KSSM	-	-	-	-	217	0.27
	<b>98,111</b>	<b>127.90</b>	<b>92,389</b>	<b>116.95</b>	<b>105,406</b>	<b>131.63</b>
Intercompany eliminations	(21,404)	(27.90)	(13,391)	(16.95)	(25,325)	(31.63)
<b>Total revenue</b>	<b>76,707</b>	<b>100.00</b>	<b>78,998</b>	<b>100.00</b>	<b>80,081</b>	<b>100.00</b>

**10. FINANCIAL INFORMATION (Cont'd)**

Revenue	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
KSSI	37,981	74.80	43,742	90.79
PTM	14,146	27.86	9,831	20.41
TTH	13,670	26.92	12,162	25.24
KSSM	71	0.14	210	0.43
	<b>65,868</b>	<b>129.72</b>	<b>65,945</b>	<b>136.87</b>
Intercompany eliminations	(15,091)	29.72	(17,766)	36.87
<b>Total revenue</b>	<b>50,777</b>	<b>100.00</b>	<b>48,179</b>	<b>100.00</b>

The breakdown of our revenue by principal activities is as follows:-

Revenue	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
Manufacturing	17,533	22.86	17,578	22.25	23,775	29.69
Processing	39,788	51.87	42,877	54.28	34,506	43.09
Trading	19,386	25.27	18,543	23.47	21,800	27.22
<b>Total revenue</b>	<b>76,707</b>	<b>100.00</b>	<b>78,998</b>	<b>100.00</b>	<b>80,081</b>	<b>100.00</b>

Revenue	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
Manufacturing	14,726	29.00	12,972	26.92
Processing	23,489	46.26	19,768	41.03
Trading	12,562	24.74	15,439	32.05
<b>Total revenue</b>	<b>50,777</b>	<b>100.00</b>	<b>48,179</b>	<b>100.00</b>

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## 10. FINANCIAL INFORMATION (Cont'd)

The breakdown of our revenue by products is as follows:-

Revenue	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
<b>Manufacturing:</b>						
Stainless Steel Tubes and Pipes	14,504	18.91	15,483	19.60	21,239	26.52
Stainless Steel Industrial Fasteners	3,029	3.95	2,095	2.65	2,536	3.17
<b>Processing:</b>						
Stainless Steel Sheets	22,000	28.68	27,872	35.28	19,105	23.86
Stainless Steel Bars	17,788	23.19	15,005	19.00	15,401	19.23
<b>Trading:</b>						
Marine Hardware and Consumables <sup>(1)</sup>	11,276	14.70	10,453	13.23	13,938	17.40
Industrial Hardware <sup>(2)</sup>	8,110	10.57	8,090	10.24	7,862	9.82
<b>Total revenue</b>	<b>76,707</b>	<b>100.00</b>	<b>78,998</b>	<b>100.00</b>	<b>80,081</b>	<b>100.00</b>

Revenue	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
<b>Manufacturing:</b>				
Stainless Steel Tubes and Pipes	13,605	26.79	11,275	23.40
Stainless Steel Industrial Fasteners	1,121	2.21	1,697	3.52
<b>Processing:</b>				
Stainless Steel Sheets	14,265	28.09	7,984	16.57
Stainless Steel Bars	9,224	18.17	11,784	24.46
<b>Trading:</b>				
Marine Hardware and Consumables <sup>(1)</sup>	7,743	15.25	11,542	23.96
Industrial Hardware <sup>(2)</sup>	4,819	9.49	3,897	8.09
<b>Total revenue</b>	<b>50,777</b>	<b>100.00</b>	<b>48,179</b>	<b>100.00</b>

## Notes:-

- (1) Includes, amongst others, PP and PE ropes, GI wire, wire ropes and wire netting, nylon trammel and PE nets, copper tubes, chain, brass stern gland and propellers, square boat end shank spikes, pecking and asbestos sheets, stainless steel electrode and rigging hardware such as zincked block, pulley, pin shaft, hooks and chain block.
- (2) Industrial hardware including, amongst others, bronze shaft, brass tubes, other steel industrial fasteners such as HT, MS and GI bolts and nuts, screws, washers and shackles, ductile iron pipe and fittings such as flange, valves, tepees, hose clips and clamps, industrial hoses such as spring hose, PVC hose, black rubber suction end water hose and PVC reinforced air hose, alloy chain, stainless steel wire mesh, colour cotton rag, rubber conveyor belt, industrial wipes, safety absorbent and fibre ceramic blanket.

**10. FINANCIAL INFORMATION (Cont'd)**

The breakdown of our revenue by markets is as follows:-

Revenue	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
Local market	58,195	75.87	50,640	64.10	58,306	72.81
<b>Overseas market:</b>						
Indonesia	11,847	15.44	14,563	18.43	6,685	8.36
Singapore	6,585	8.58	12,023	15.22	12,600	15.73
United Kingdom	66	0.09	1,680	2.13	1,116	1.39
Brunei	14	0.02	92	0.12	100	0.12
Papua New Guinea	-	-	-	-	1,274	1.59
<b>Total Overseas Market</b>	<b>18,512</b>	<b>24.13</b>	<b>28,358</b>	<b>35.90</b>	<b>21,775</b>	<b>27.19</b>
<b>Total revenue</b>	<b>76,707</b>	<b>100.00</b>	<b>78,998</b>	<b>100.00</b>	<b>80,081</b>	<b>100.00</b>

Revenue	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
Local market	36,807	72.49	39,321	81.62
<b>Overseas market:</b>				
Indonesia	6,108	12.03	193	0.40
Singapore	6,711	13.21	5,836	12.11
United Kingdom	1,081	2.13	687	1.43
Brunei	70	0.14	65	0.13
Papua New Guinea	-	-	2,077	4.31
<b>Total Overseas Market</b>	<b>13,970</b>	<b>22.51</b>	<b>8,858</b>	<b>18.38</b>
<b>Total revenue</b>	<b>50,777</b>	<b>100.00</b>	<b>48,179</b>	<b>100.00</b>

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## 10. FINANCIAL INFORMATION (Cont'd)

## (b) Gross profit

The breakdown of our gross profit by subsidiaries is as follows:-

Gross profit	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
KSSI	12,514	80.98	9,373	72.93	10,267	73.30
PTM	1,287	8.33	876	6.82	1,364	9.74
TTH	1,652	10.69	2,603	20.25	2,410	12.21
KSSM	-	-	-	-	(35)	(0.25)
<b>Total gross profit</b>	<b>15,453</b>	<b>100.00</b>	<b>12,852</b>	<b>100.00</b>	<b>14,006</b>	<b>100.00</b>

Gross profit	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
KSSI	5,924	70.71	7,280	83.48
PTM	1,156	13.80	210	2.41
TTH	1,340	15.99	1,233	14.14
KSSM	(42)	(0.50)	(3)	(0.03)
<b>Total gross profit</b>	<b>8,378</b>	<b>100.00</b>	<b>8,720</b>	<b>100.00</b>

The breakdown of our gross profit by our principal activities is as follows:-

Gross Profit	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
Manufacturing	3,729	24.13	2,241	17.43	4,319	30.83
Processing	8,589	55.58	6,989	54.39	5,886	42.03
Trading	3,135	20.29	3,622	28.18	3,801	27.14
<b>Total gross profit</b>	<b>15,453</b>	<b>100.00</b>	<b>12,852</b>	<b>100.00</b>	<b>14,006</b>	<b>100.00</b>

Gross Profit	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
Manufacturing	2,416	28.84	2,172	24.91
Processing	3,744	44.69	3,614	41.44
Trading	2,218	26.47	2,934	33.65
<b>Total gross profit</b>	<b>8,378</b>	<b>100.00</b>	<b>8,720</b>	<b>100.00</b>

## 10. FINANCIAL INFORMATION (Cont'd)

The breakdown of our gross profit by products is as follows:-

Gross profit	FYE 31 December					
	2007		2008		2009	
	RM'000	%	RM'000	%	RM'000	%
<b>Manufacturing:</b>						
Stainless Steel Tubes and Pipes	2,951	19.10	1,824	14.19	3,474	24.80
Stainless Steel Industrial Fasteners	778	5.03	417	3.24	845	6.03
<b>Processing:</b>						
Stainless Steel Sheets	4,554	29.47	4,446	34.59	3,003	21.44
Stainless Steel Bars	4,035	26.11	2,543	19.80	2,883	20.59
<b>Trading:</b>						
Marine Hardware and Consumables <sup>(1)</sup>	1,699	10.99	2,033	15.82	2,273	16.23
Industrial Hardware <sup>(2)</sup>	1,436	9.30	1,589	12.36	1,528	10.91
<b>Total gross profit</b>	<b>15,453</b>	<b>100.00</b>	<b>12,852</b>	<b>100.00</b>	<b>14,006</b>	<b>100.00</b>

Gross profit	FPE 31 August			
	2009		2010	
	RM'000	%	RM'000	%
<b>Manufacturing:</b>				
Stainless Steel Tubes and Pipes	2,183	26.06	1,586	18.19
Stainless Steel Industrial Fasteners	233	2.78	586	6.72
<b>Processing:</b>				
Stainless Steel Sheets	1,851	22.09	1,208	13.85
Stainless Steel Bars	1,893	22.59	2,406	27.59
<b>Trading:</b>				
Marine Hardware and Consumables <sup>(1)</sup>	1,294	15.45	2,000	22.94
Industrial Hardware <sup>(2)</sup>	924	11.03	934	10.71
<b>Total gross profit</b>	<b>8,378</b>	<b>100.00</b>	<b>8,720</b>	<b>100.00</b>

**Notes:-**

- (1) Includes, amongst others, PP and PE ropes, GI wire, wire ropes and wire netting, nylon trammel and PE nets, copper tubes, chain, brass stern gland and propellers, square boat and shank spikes, pecking and asbestos sheets, stainless steel electrode and rigging hardware such as zincked block, pulley, pin shaft, hooks and chain block.
- (2) Industrial hardware including, amongst others, bronze shaft, brass tubes, other steel industrial fasteners such as HT, MS and GI bolts and nuts, screws, washers and shackles, ductile iron pipe and fittings such as flange, valves, tapers, hose clips and clamps, industrial hoses such as spring hose, PVC hose, black rubber suction and water hose and PVC reinforced air hose, alloy chain, stainless steel wire mesh, colour cotton rag, rubber conveyor belt, industrial wipes, safety absorbent and fibre ceramic blanket.

**10. FINANCIAL INFORMATION (Cont'd)****(c) Gross profit margin**

The breakdown of our gross profit margin by our activities is as follows:-

Gross profit margin	FYE 31 December			FPE 31 August	
	2007	2008	2009	2009	2010
	%	%	%	%	%
Manufacturing	21.27	12.75	18.16	16.41	16.74
Processing	21.58	16.30	17.06	15.94	18.28
Trading	16.17	19.53	17.44	17.66	19.00
<b>Overall Gross Profit Margin</b>	<b>20.15</b>	<b>16.27</b>	<b>17.49</b>	<b>16.50</b>	<b>18.10</b>

The breakdown of our gross profit margin by our products is as follows:-

Gross profit margin	FYE 31 December			FPE 31 August	
	2007	2008	2009	2009	2010
	%	%	%	%	%
<b>Manufacturing:</b>					
Stainless Steel Tubes and Pipes	20.35	11.78	16.35	16.05	14.07
Stainless Steel Industrial Fasteners	25.68	19.88	33.28	20.79	34.53
<b>Processing:</b>					
Stainless Steel Sheets	20.70	15.95	15.72	12.98	15.13
Stainless Steel Bars	22.69	16.95	18.72	20.52	20.42
<b>Trading:</b>					
Marine Hardware and Consumables <sup>(1)</sup>	15.07	19.45	16.31	16.71	17.33
Industrial Hardware <sup>(2)</sup>	17.71	19.64	19.44	19.17	23.97
<b>Overall Gross Profit Margin</b>	<b>20.15</b>	<b>16.27</b>	<b>17.49</b>	<b>16.50</b>	<b>18.10</b>

**Notes:-**

- (1) Includes, amongst others, PP and PE ropas, GI wire, wire ropas and wire netting, nylon tremmal and PE nets, copper tubes, chain, brass stern gland and propellers, square boat and shank spikas, packing and asbestos sheets, stainless steel electrode and rigging hardware such as zincked block, pullay, pin shaft, hooks and chain block.
- (2) Industrial hardware including, amongst others, bronze shaft, brass tubas, other steel industrial fasteners such as HT, MS and GI bolts and nuts, screws, washers and shacklas, ductile iron pipe and fittings such as flange, valves, tapars, hose clips and clamps, industrial hoses such as spring hose, PVC hose, black rubber suction and water hose and PVC reinforced air hose, alloy chain, stainless steel wire mash, colour cotton rag, rubber conveyer belt, industrial wipes, safety absorbent and fibre ceramic blanket.

**10. FINANCIAL INFORMATION (Cont'd)****Commentary on financial performance****FYE 31 December 2007 as compared to FYE 31 December 2006****Revenue**

For the FYE 31 December 2007, we recorded total revenue of approximately RM76.71 million. The sales of our secondary stainless steel products accounted for approximately 74.73% of our total revenue, comprising revenues from our manufacturing and processing operations of approximately 22.86% and 51.87% respectively. The remaining revenue of approximately 25.27% is derived from the sale of industrial hardware from our trading operations.

During the financial year under review, the average yearly price of stainless steel increased by approximately 56.29% from USD3,603 per metric tonne in 2006 to USD5,631 per metric tonne in 2007, signalling favourable market demand for secondary stainless steel products. Leveraging on our key strength as a one-stop supply centre for secondary stainless steel products, we were able to benefit from the ascending trend of the secondary stainless steel industry.

In the financial year under review, we achieved sales of RM39.79 million from our processing operations, which represents a growth of 89.12% as compared to the sales of RM21.04 million recorded in the previous financial year. The substantial increase in our sale of processed products was principally attributable to the following:-

- (a) the favourable demand for our processed stainless steel bars from our East Malaysian customers, who are involved in the shipbuilding and manufacturing industry; and
- (b) the increase orders for processed stainless steel sheets from our overseas market, particularly Indonesia and Singapore.

In the FYE 31 December 2007, sales of our manufactured secondary stainless steel products increased from RM9.63 million recorded in the previous financial year to RM17.53 million, outlining an increase of 82.04%. The significant growth was primarily due to the following:-

- (a) the increase in the average selling prices of our stainless steel tubes and pipes from an average selling price of RM14,198 per metric tonne to RM17,577 per metric tonne as result of the upward trend in the prices of stainless steel;
- (b) our sales and marketing team securing significant sales of stainless steel tubes and pipes to Indonesia and Singapore in the financial year under review.

Our trading operations recorded a slight decline in revenue from RM20.46 million recorded in the previous financial year to RM19.39 million. The decrease in the sales of industrial products was mainly due to our management focusing on the production of secondary stainless steel products given the strong demand for secondary stainless steel products during the FYE 31 December 2007.

**10. FINANCIAL INFORMATION (Cont'd)****Gross profit, gross profit margin and PBT**

For the FYE 31 December 2007, we achieved a higher overall gross profit margin of 20.15% as compared to 16.18% recorded in the previous financial year. The improvement in our overall gross profit margin was primarily due to the following:-

- (a) the higher gross profits margin reported from our trading operations. In the financial year under review, we obtained a higher gross profit margin from our trading operations of 16.20% as compared to 10.88% recorded in the previous financial year. The increase in gross profit margin was mainly attributable to higher margin earned from our sales of industrial hardware products as we had previously purchased these stocks at lower prices; and
- (b) a slight increase in gross profit margins of our manufacturing and processing operations compared to the previous financial year.

In the FYE 31 December 2007, we attained a higher PBT of approximately RM10.14 million as compared to RM4.44 million recorded in the previous financial year. The growth in PBT was predominantly due to the overall increase in gross profit as disclosed above, which was slightly offset by the increase in our operating expenses and selling and distribution expenses.

**PAT**

We reported a higher PAT of approximately RM7.50 million as compared to RM3.02 million recorded in the previous financial year.

**FYE 31 December 2008 as compared to FYE 31 December 2007****Revenue**

In the FYE 31 December 2008, our total revenue improved marginally by 2.99% from approximately RM76.71 million in the previous financial year to RM79.0 million. The sale of our secondary stainless steel products remained as our core revenue stream, constituting approximately 76.53% of our total revenue. Our manufacturing, processing and trading operations contributed approximately 22.25%, 54.28% and 23.47% respectively to our total revenue.

In the first half of the 2008, the average monthly prices of stainless steel was on a steady upward trend from USD5,216 per metric tonne in January to USD5,647 per metric tonne in July, exhibiting continuity of the upswing of the secondary stainless steel industry from the previous financial year. Being a one-stop supply centre for secondary stainless steel products, we managed to capitalize on the favourable market demand for secondary stainless steel products.

However, the average monthly price of stainless steel subsequently declined substantially from USD5,647 per metric tonne in July to USD3,107 per metric tonne in December, as a result of the global economic crisis in the second half of the year. In tandem with the downward revision of the prices of stainless steel, the selling price of a majority of our secondary stainless steel products also decreased, reflecting the prevailing low market price of raw materials at that time.

**10. FINANCIAL INFORMATION (Cont'd)**

For the FYE 31 December 2008, we recorded a slightly higher revenue of RM42.88 million from our processing operations as compared to RM39.79 million reported in the previous financial year. The marginal increase was mainly due to the increase in our sales volume of our processed stainless steel sheets to the Singaporean market, which to a certain extent, mitigated the declining sales of our processed stainless steel bars in the financial year under review.

Despite the global economic uncertainty in the second half of 2008, revenue from our manufacturing operations of RM17.58 million remained consistent with our revenue of RM17.53 million recorded in the previous financial year. This was primarily attributable to the following:-

- (a) our Group securing our first significant export sales of stainless steel tubes and pipes to the United Kingdom; and
- (b) the increase in purchase orders for our stainless steel tubes and pipes from our existing customers in Indonesia.

Revenue from our trading operations declined marginally by approximately 4.35% from RM19.39 million achieved in the previous year to RM18.54 million. The decrease in revenue was mainly due to the overall decline in our sales of marine hardware and industrial hardware products in the last quarter of the FYE 31 December 2008.

**Gross profit, gross profit margin and PBT**

During the financial year under review, we achieved a lower overall gross profit margin of 16.27% as compared to 20.15% recorded in the previous financial year. The sharp decline was mainly due to the following:-

- (a) Our gross profit margin for our manufacturing operations dropped from 21.27% in the previous financial year to 12.75%; and
- (b) Similarly, gross profit margin for our processing operations also decreased from 21.58% recorded in the previous financial year to 16.30%

The general decline in gross profit margins for both of our operations were attributed primarily to the decrease in the average selling prices of our secondary stainless steel products in view of the state of the Malaysian economy in the second half of the financial year under review. The average selling prices of our stainless steel tubes and pipes declined substantially from approximately RM17,771 per metric tonne recorded in the previous financial year to RM14,730 per metric tonne. Similarly, the overall average selling price of our processed stainless steel products also decreased from RM17,093 per metric tonne reported in the previous financial year to RM14,965 per metric tonne.

However, our eroding gross profit margins for our secondary stainless steel operations was to a certain extent mitigated by the increase in our gross profit margins for our trading operations. We achieved a higher gross profit margin for our trading operations of 19.53% as compared to 16.17% secured in the FYE 31 December 2007. This was mainly attributable to the sale of our marine hardware and consumables in the first half of the financial year when the selling prices of these products were high.

**10. FINANCIAL INFORMATION (Cont'd)**

In the financial year under review, we reported a higher PBT of RM11.10 million as compared to RM10.14 million recorded in the FYE 31 December 2007. The increase was primarily due to the sale of two (2) units of our semi-detached factory located in Bandar Puchong Jaya, Selangor Darul Ehsan amounting to approximately RM2.35 million as disclosed in **Section 10.3.1** of this Prospectus.

**PAT**

We recorded a higher PAT of RM8.89 million as compared to RM7.50 million achieved in the previous financial year. The increase in our PAT was mainly attributable to the gain on the disposal of our properties (which was tax-exempted under Real Property Gain Tax Act, 1976), the use of unabsorbed losses from our wholly-owned subsidiary, PTM and unutilised capital allowances brought forward from the preceding financial year.

**FYE 31 December 2009 as compared to FYE 31 December 2008****Revenue**

For the FYE 31 December 2009, our revenue grew by 1.37% from RM79.0 million reported in the previous financial year to RM80.08 million. The sales of our secondary stainless steel products accounted for approximately 72.78% of our total revenue, comprising revenues from our manufacturing and processing operations of approximately 29.69% and 43.09% respectively. Revenue from our trading operations constituted approximately 27.22% of our total revenue.

In view of the global economic uncertainty, the average yearly prices of stainless steel dip further from USD4,967 per metric tonne recorded in 2008 to USD2,613 per metric tonne, representing a sharp decrease of 47.39%. Correspondingly, the selling price of most of our secondary stainless steel products also declined, reflecting the prevailing low market price of raw materials at that time.

We recorded a lower revenue of RM34.51 million for our processing operations in the FYE 31 December 2009 as compared to RM42.88 million obtained in the previous financial year. The decline in revenue was principally attributable to the following:-

- (a) the declining prices of stainless steel in the first half of 2009; and
- (b) in light of (a), the sales of processed stainless steel sheets decreased substantially from RM27.87 million recorded in the previous financial year to RM19.11 million.

Despite the declining prices of the stainless steel in the first half of 2009, we managed to maintain our sales of processed stainless steel bars at RM15.40 million, which remained fairly consistent with the previous financial year. This was attributable to the increase in our sales volume of our processed stainless steel bars as:-

- (a) our sales and marketing team secured new customers with purchase orders, accounting for approximately 34.80% of our total sales of stainless steel bars; and
- (b) the increase in purchase orders from local industrial wholesalers and shipbuilders.

**10. FINANCIAL INFORMATION (Cont'd)**

Given the downward trend of the stainless steel prices and the unfavourable demand for our processed stainless steel sheets, our management decided to focus more on our trading operations and the manufacturing of stainless steel tubes and pipes as these secondary stainless steel products were less affected by the decrease in prices of stainless steel and commanded a better gross profit margin as compared to the sale of processed stainless steel sheets. Hence, most of our stainless steel coils earmarked for our processing operations were utilised for the manufacturing of our stainless steel tubes and pipes in the FYE 31 December 2009.

Following our Group's change in focus, we achieved a higher revenue of RM23.78 million from our manufacturing operations as compared to RM17.58 million recorded in the previous financial year, representing a significant increase of approximately 35.27%. The significant increase was also attributed to the growing awareness of our stainless steel tubes and pipes in the local market particularly in Johor and the increase in our sales and marketing efforts to secure more purchase orders for stainless steel tubes and pipes. In addition, we also successfully secured new purchase orders from our Singaporean market.

Our revenue from trading operations increased from RM18.54 million in the previous financial year to RM21.80 million. This was mainly due to the increase in our sales of marine ropes, parts and accessories as we stepped-up our marketing efforts focusing on the fishing industry in the financial year under review.

**Gross profit, gross profit margin and PBT**

In the FYE 31 December 2009, we reported an improved overall gross profit margin of 17.49% as compared to 16.27% obtained in the previous financial year. The marginal increase in our overall gross profit margin was mainly attributable to the following:-

- (a) the significant increase in our gross profit margin of stainless steel tubes and pipes, which rose from 11.78% achieved in the previous financial year to 16.35%; and
- (b) the substantial increase in our gross profit margins for stainless steel industrial fasteners as it increased from 19.88% to 33.28%. This was primarily due to our first export sales to Papua New Guinea, which commands a higher margin. Our Group is able to manufacture a customized range of stainless steel industrial fasteners to meet the special needs of this Papua New Guinea customer, for which the product is not readily available in the market.

For the FYE 31 December 2009, our gross profit for our processing and trading operations remained relatively consistent with the gross profit margins achieved in the previous financial year.

Despite our improved overall gross profit, we recorded a lower PBT of RM9.34 million as compared to RM11.10 million obtained in the FYE 31 December 2008. The decline in PBT was attributable mainly due to the significant decrease in our other income as compared to the previous financial year.

**PAT**

We reported a lower PAT of RM7.15 million in the FYE 31 December 2009 as compared to RM8.89 million recorded in the previous financial year. The decrease was attributable to the decrease in our other income as highlighted above.

**10. FINANCIAL INFORMATION (Cont'd)****FPE 31 August 2010 as compared to FPE 31 August 2009****Revenue**

For the eight (8) months FPE 31 August 2010, our revenue decreased by 5.12% from RM50.78 million reported in the previous corresponding financial period to RM48.18 million. Sales of our secondary stainless steel products accounted for approximately 67.95% of our total revenue, comprising revenues from our manufacturing and processing operations of approximately 29.92% and 41.03% respectively. The balance of our total revenue of approximately 32.05% was derived from the sale of our industrial hardware products.

In the eight (8) months FPE 31 August 2010, we reported lower revenue of approximately RM19.77 million from our processing operations as compared to RM23.49 million recorded in the previous corresponding financial period. The decrease in revenue was mainly attributable to the decline in sales of our processed stainless steel sheets from approximately RM14.27 million recorded in the previous corresponding financial year to RM7.98 million arising mainly from the decrease in purchases from our existing customers in Indonesia. However, the decrease in the sales to the Indonesian market was slight offset by the increase in sales of our stainless steel bars from our existing customers, who are mostly overseas industrial wholesalers and retailers.

We also recorded lower sales for our manufactured stainless steel products of approximately RM12.97 million during the eight (8) months FPE 31 August 2010 as compared to RM14.73 million reported in the previous corresponding financial period. The decline was mainly due to the decline in the sales of stainless steel tubes and pipes as a result of lower purchase orders from the overseas market.

For the eight (8) months FPE 31 August 2010, our revenue from trading operations increased from RM12.56 million in the previous corresponding financial period to RM15.44 million. The growth in our trading revenue was mainly due to the increase in demand for marine ropes, parts and accessories arising from our sales and marketing effort that focused on the local marine and fishing industry.

**Gross profit, gross profit margin and PBT**

Despite the decline in our revenue, we reported an improved overall gross profit margin of 18.10% in the eight (8) months FPE 31 August 2010 as compared to 16.50% obtained in the previous corresponding financial period. The increase in our overall gross profit margin was mainly attributable to the following:-

- (a) the substantial increase in our gross profit margins for stainless steel industrial fasteners from 20.79% to 34.53%. This was primarily due to the export sales of customized range of stainless steel industrial fasteners to Papua New Guinea, which commanded a higher margin.
- (b) the increase in our gross profit margins for industrial hardware products from 19.17% to 23.97%. This was mainly attributable to the higher margin earned from the sales of industrial hardware products as we had purchased these stocks at lower prices.

**PAT**

We reported a higher PAT of RM3.76 million in the eight (8) months FPE 31 August 2010 as compared to RM3.72 million recorded in the previous financial year.

**10. FINANCIAL INFORMATION (Cont'd)****10.3.3 Significant factors affecting our profits**

Our Group's financial condition and results of operations have been, and will continue to be affected by, amongst others, the following key factors:-

- (a) Demand and supply conditions for our products and services as set out in **Section 6.5** and **Section 6.6** of this Prospectus;
- (b) Fluctuations in the prices of raw materials;

The increase in cost of raw materials will to a certain extent impact on the profitability of our Group as raw material is the primary contributor to our cost of sales. As such, we endeavour to source raw materials at the lowest cost possible, and establish long-term relationships with reliable suppliers that can provide a consistent supply of raw materials.

Nevertheless, raw materials such as stainless steel coils and round bars are subject to fluctuations in prices, driven by factors such as commodity prices (including nickel), global economic conditions, market demand and supply, as well as the production capabilities of rolling and finishing stainless steel mills.

A significant portion of cost increases are imputed in selling prices to avoid reductions in our profit margins. Nonetheless, we may absorb part of the price increases to remain competitive. Please refer to **Section 4.1.1** of this Prospectus for further details.

- (c) Impact of foreign exchange / interest rates / inflation; and

We have business transactions in foreign currencies in the normal course of our business, which include purchases of raw materials and supplies, and the export of our products. Most of these transactions are denominated in USD.

However, our Board is of the view that the above risk is, to a certain extent mitigated by the fact that our management possess experience in purchasing our materials and constantly monitors market trends for the prices of materials and foreign exchange fluctuations. For the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010, we have not incurred any material losses arising from foreign exchange transactions. The net foreign exchange gains/(losses) of our Group for the financial years under review are as follows:-

	FYE 2007	FYE 2008	FYE 2009	FPE 2010
	RM	RM	RM	RM
Net foreign exchange gain /(loss)	(42,183)	478,735	185,125	(305,492)
As a percentage of PBT (%)	(0.40)	4.40	1.94	(5.82)

In addition, our Group also maintains a foreign exchange hedging facility with our principal bankers, to hedge our transactions forward, if the need arises.

There has been no material impact of foreign exchange, interest rates and inflation on our historical profits for the past three (3) financial 31 December 2009 and up to the eight (8) months FPE 31 August 2010.

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**10. FINANCIAL INFORMATION (Cont'd)**

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(d) Global economic outlook

Our business is, to a large extent, subject to the general economic conditions in Malaysia and other countries where we market our products to or source our supplies from. A recession in the global economy, such as that being brought about or threatened by the global financial crisis, could have an adverse impact on the overall demand for our products, which can in turn adversely affect our business operations and financial position.

There is no assurance that the factors which have contributed to the success of our Group in the past will continue to occur in the future. Although we seek to manage this risk by adopting prudent management and anticipating future demand and trends for our products, our business performance, and operations will inevitably be affected should there be any major change in global economic conditions. Our profitability may be affected in the event such changes directly or indirectly affect the countries where we operate in and market our products to, or source our supplies from.

**10.3.4 Exceptional and Extraordinary Items**

There were no exceptional and extraordinary items for the past financial years/period under review.

**10.3.5 Government / Economic / Fiscal / Monetary Policies**

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in **Section 4** of this Prospectus.

There is no government, economic, fiscal or monetary policies or factors that have materially impacted our historical profits for the past three (3) FYE up to 31 December 2009 and the eight (8) months FPE 31 August 2010.

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**10. FINANCIAL INFORMATION (Cont'd)****10.4 CAPITALISATION AND INDEBTEDNESS**

The following table summarises our cash and cash equivalents, capitalisation and indebtedness as at 31 August 2010:-

	Proforma audited as at 31 August 2010 RM'000	After Public Issue RM'000
<b>Cash and cash equivalents</b>	<b>8,724</b>	<b>18,963</b>
<b>INDEBTEDNESS</b>		
<b>Short Term (Due within 12 months)</b>		
Hire Purchase	270	270
Bank acceptances	20,796	20,796
Trust receipts	38	38
Term loans	275	275
<b>Long Term (Due after 12 months)</b>		
Hire Purchase	413	413
Term loans	3,271	3,271
<b>Total indebtedness</b>	<b>25,063</b>	<b>25,063</b>
<b>CAPITALISATION</b>		
Total shareholders' equity	46,570	57,006
<b>Total capitalisation</b>	<b>46,570</b>	<b>57,006</b>
<b>Total capitalisation and indebtedness</b>	<b>71,633</b>	<b>62,069</b>

The contingent liabilities of our Group are set out in **Section 10.5.8** of this Prospectus.

**10.5 LIQUIDITY AND CAPITAL RESOURCES****10.5.1 Working Capital**

We finance our growth and operations through a combination of shareholders' funds, cash generated from operating activities and borrowings from financial institutions.

Our principal sources of liquidity as at 31 August 2010 are set out below:-

	RM'000
Cash and bank balances	3,220
Deposits with licensed banks	5,504
Net cash flows from operations	1,768
Bank borrowings	25,063

As at 31 August 2010, we have total current assets of approximately RM57.02 million and current liabilities of approximately RM25.94 million, representing net working capital of approximately RM31.08 million and a current ratio of 2.20 times. Our current assets mainly comprise inventories, trade receivables, other receivables as well as cash and cash equivalents.

**10. FINANCIAL INFORMATION (Cont'd)**

Our Board is of the opinion that we will have adequate working capital for a period of twelve (12) months from the date of this Prospectus after taking into consideration our current cash flow position, the proceeds arising from the Public Issue and the banking facilities available, as well as our capacity to obtain further institutional financing based on debt to equity ratio of 0.44 times (based on our proforma consolidated balance sheets as at 31 August 2010 after incorporating the effects of the Listing Scheme and the utilisation of the proceeds arising from the Public Issue).

**10.5.2 Cash Flow**

The details of the cash flows during the financial period ended 31 August 2010 are as follows:

	As at 31 August 2010 RM'000
Net cash generated from operating activities	1,768
Net cash used in investing activities	(712)
Net cash used in financing activities	(3,908)
<b>Net increase in cash and cash equivalents</b>	<b>(2,852)</b>
Cash and cash equivalents at beginning of the financial period	11,576
<b>Cash and cash equivalents at the end of the financial period</b>	<b>8,724</b>

**Net cash from operating activities**

During the eight (8) months FPE 31 August 2010, our Group generated net cash from operating activities of approximately RM1.76 million which was attributed to receipts from customers of approximately RM47.85 million and payment to suppliers and our employees of approximately RM44.46 million, as well as payment for income tax of approximately RM1.63 million.

**Net cash used in investing and financing activities**

Our Group's net cash used in investing activities of RM0.71 million for the eight (8) months FPE 31 August 2010 was principally attributable to our purchase of machineries and equipment totalling RM0.79 million.

Our Group's net cash used in financing activities of RM3.91 million for the eight (8) months FPE 31 August 2010 was mainly attributable to the repayment of bank borrowings totalling approximately RM0.24 million, payment of interest payment of approximately RM0.67 million and payment of dividend of RM3.0 million.

Moving forward, our Group will utilise the proceeds from the Public Issue for our capital expenditure and business expansion, details of which are disclosed in **Section 3.9** of this Prospectus.

There are no legal or economic restrictions on the ability of our subsidiaries to transfer funds to our Company in the form of cash dividends.

**10. FINANCIAL INFORMATION (Cont'd)****10.5.3 Borrowings**

As at 31 August 2010, total outstanding bank borrowings in the form of term loan, hire purchases and bankers' acceptances amounted to approximately RM25.06 million. The borrowings can be further analysed as follows:-

Outstanding Borrowings	Amount
	RM'000
<b>Short Term (Due within 12 months) (Interest bearing)</b>	
Bankers' acceptances	20,796
Hire purchases	270
Trust receipts	38
Term loans	275
<b>Long Term (Due after 12 months) (Interest bearing)</b>	
Term loans	3,271
Hire purchases	413
<b>Total interest-bearing borrowings</b>	<b>25,063</b>
Gearing ratio of the KSSC Group (after the Acquisition) <sup>(1)</sup>	0.53
Gearing ratio after the IPO and utilisation of proceeds <sup>(2)</sup>	0.44

**Notes:**

- (1) Based on our Group's proforma shareholders' funds as at 31 August 2010 of RM47.01 million.  
(2) Based on our Group's proforma shareholders' funds as at 31 August 2010 of RM57.01 million upon completion of the Public Issue and after the utilisation of proceeds as set out in Section 3.9 of this Prospectus.

Our banker acceptances constitute the bulk of our borrowings. As at 31 August 2010, our bankers' acceptances accounted for 82.97% of our borrowings. The bankers' acceptances are necessary for our day-to-day operations, which involve large import purchases of raw materials for our manufacturing and processing activities.

Our Group has no borrowings in foreign currency.

In addition, our Group has not defaulted on payments on either interest and/or principal sums in respect of any borrowings throughout the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 immediately preceding the date of this Prospectus. Our Group is not in breach of any terms and conditions or covenants associated with the credit arrangements or bank loans which could materially affect our financial position or business operations or the investment by holders of securities in us.

**10.5.4 Types of financial instruments used**

As at the LPD, we do not have nor do we use any financial instruments.

**10. FINANCIAL INFORMATION (Cont'd)****10.5.5 Material Capital Expenditure**

Save as disclosed below, there are no other material capital expenditures and divestments made by our Group for the past three (3) FYE 31 December 2009 and up to the LPD:-

	FYE 31 December			1 January 2010 to the LPD
	2007	2008	2009	
	RM'000	RM'000	RM'000	RM'000
<b>Expenditures</b>				
Freehold land	(1)4,114	-	-	-
Plant and machineries	1,470	236	758	(2)2,208
Electrical installation, factory equipment, office and electrical equipment	97	24	18	197
Motor vehicles	1,038	-	-	265
Capital work-in-progress	-	1,413	806	447
<b>Total expenditures</b>	<b>6,719</b>	<b>1,673</b>	<b>1,582</b>	<b>3,117</b>
<b>Divestments</b>				
Freehold land and building	-	(3)3,500	-	-
Plant and machineries	-	-	-	4
Electrical installation, factory equipment, office and electrical equipment	7	-	-	-
Disposal of a subsidiary	-	(4)270	-	-
Motor vehicles	56	-	43	21
<b>Total divestments</b>	<b>63</b>	<b>3,770</b>	<b>43</b>	<b>25</b>

**Notes:-**

- (1) Purchase of the vacant industrial land located in Seremban, Nagari Sembilan. Further details of the said vacant land are disclosed in Section 5.8.1 of this Prospectus.
- (2) Purchase of plant and machineries for our manufacturing operations.
- (3) Disposal of two (2) units of semi-detached factories located in Bandar Puchong Jaya, Selangor Darul Ehsan.
- (4) Disposal of our investment in MT Global Technologies Sdn Bhd.

As at the date of this Prospectus, we do not have any capital expenditure and divestments currently in progress, within or outside Malaysia.

**10.5.6 Material Commitment**

Save as disclosed below, as at the LPD, our Group has not incurred or known to have incurred any material commitment for capital expenditure that may have a material and adverse impact on our financial position.

	RM'000
<b>Approved and contracted for:-</b>	
Purchase of machineries and equipments for the manufacturing of stainless steel tubes and pipes	383

The anticipated costs of funds for the material commitment will be from our Group's internally generated funds.

**10. FINANCIAL INFORMATION (Cont'd)****10.5.7 Material Litigation**

As at the LPD, we are not engaged in any material litigation and/or arbitration, either as plaintiff or defendant, which has a material effect on our financial position, and our Board is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect our financial position or business.

**10.5.8 Contingent Liabilities**

As at the LPD, there are no material contingent liabilities incurred by our Group, which may have a substantial impact on the financial position of our Group.

**10.5.9 Other key financial ratios**

The key financial ratios of our Group are as follows:-

	FYE 31 December			FPE 31 August
	2007	2008	2009	2010
Trade receivable turnover period (days) <sup>(1)</sup>	105	113	113	125
Trade payable turnover period (days) <sup>(2)</sup>	19	16	13	21
Inventories turnover period (days) <sup>(3)</sup>	120	104	98	124

**Notes:-**

- (1) Trade receivables as at the end of the financial year/financial period over revenue.  
 (2) Trade payables as at the end of the financial year/financial period over cost of sales.  
 (3) Inventories as at the end of the financial year/financial period over cost of sales.

**Trade receivables**

The normal credit terms granted to customers is 30 days to 150 days. Other credit terms are assessed and approved on a case-by-case basis after taking into consideration, inter-alia, the background and credit-worthiness of the customer, past collection trend and our relationship with the customer. Our credit control efforts have allowed us to properly manage our receivables and this is evident as our turnover period is within our Group's credit practice.

The amount of trade receivables exceeding the normal credit period granted by our Group for the past three (3) FYE 31 December 2009 are as follows:-

	FYE 31 December		
	2007 RM'000	2008 RM'000	2009 RM'000
Trade receivables within the credit period (0 - 150 days)	20,729	16,441	22,480
Trade receivables exceeding the credit period (151-365 days)	1,609	7,946	2,216
<b>Total trade receivables as at the end of the financial year</b>	<b>22,338</b>	<b>24,387</b>	<b>24,696</b>
% of trade receivables exceeding the credit period	7.20	32.58	8.98

**Note:-**

The outstanding trade receivables reported in the respective financial years were fully settled subsequent to year end.

**10. FINANCIAL INFORMATION (Cont'd)**

Based on the table above, we recorded a higher trade receivables exceeding the normal credit terms of approximately RM7.95 million in the FYE 31 December 2008. Out of this amount, RM4.94 million of the trade receivables relate to the sales of secondary stainless steel bars to a customer, who was involved in the shipping industry. We did not provide any allowances for the debt after taking due consideration of the close relationship and the credit worthiness of the customer. The amount was fully settled in June 2009.

We are aware that any large disparity between the trade receivables and trade payables turnover period as disclosed in the key financial ratio table above may adversely impact the cash flows and working capital of the Group and thus, disrupt our business operations. In the event our trade receivables turnover period deteriorates further such that our liquidity position is affected, we may be unable to meet our short term financial obligations which include servicing our borrowings and payment of overheads. However, we believe that such risk is minimal, if any, as we have taken the following steps to mitigate such credit risk:-

- (a) we assess the credit worthiness of our customers based on inter-alia, the background of the customer, past collection trend and relationship with the customer. We generally have long standing and established relationships with most of our customers.
- (b) we review and monitor our outstanding debtors and credit terms on a monthly basis. The normal credit terms granted by us ranges between 30 to 150 days. However, it is management practice to follow-up on our collections for customers with outstanding trade receivables exceeding 120 days; and
- (c) we constantly review and ensure sufficiency of our Group's credit facilities to support our working capital and continue to maintain a good and cordial relationship with the relevant financial institutions.

As at 31 August 2010, the trade receivables of our Group amounted to approximately RM25.09 million which can be analysed as follows:-

	←----- Within credit period -----→					←---Exceed credit period ---→			Total
	0-30 Days	31-60 days	61-90 days	91-120 days	121-150 days	151-180 days	181-365 days	Over 365 days	
Trade receivables (RM'000)	7,641	5,934	4,446	4,344	1,377	897	451	-	25,090
% of total trade receivables	30.45	23.65	17.72	17.31	5.49	3.58	1.80	-	100.00
Subsequent collections up to LPD (RM'000)	(3,552)	(3,131)	(3,327)	(3,856)	(1,129)	(884)	(451)	-	(16,330)
Net of trade receivables (RM'000)	4,089	2,803	1,119	488	248	13	-	-	8,760
% of total net trade receivables	46.68	32.00	12.78	5.57	2.83	0.14	-	-	100.00

Note:-

The independent auditors, Ernst & Young have performed an audit of the trade receivables as at 31 August 2010 and provided a reasonable assurance report that the trade receivables were true and fair in accordance with Financial Reporting Standards in Malaysia. Ernst & Young also confirmed that there are no provisions made or debts written off subsequent to 31 August 2010 up to 24 December 2010 in relation to the trade receivables as at 31 August 2010.

The overdue trade receivables exceeding the credit period as at 31 August 2010 amounted to RM1.35 million, out of which 99.04% have been collected as at the LPD.

**10. FINANCIAL INFORMATION (Cont'd)****Trade payables**

The normal credit term granted by our suppliers ranges from 30 days to 120 days. For the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010, our Group's trade payables turnover period was 19 days, 16 days, 13 days and 21 days respectively.

In line with industry practice, payment for our raw material supplies are prompt in order to secure timely and consistent supply of raw materials and to preserve good relationship with our suppliers. We finance most of our purchases via bank acceptance facilities.

As at 31 August 2010, the trade payables of our Group amounted to approximately RM3.43 million which can be analysed as follows:-

	←----- Within credit period -----→				Exceed credit period Over 120 days	Total
	0-30 days	31-60 days	61-90 days	90-120 days		
Trade payables (RM'000)	1,154	1,154	513	584	21	3,426
% of total trade payables	33.68	33.68	14.98	17.05	0.61	100.00
Payments made up to LPD (RM'000)	(749)	(1,100)	(511)	(583)	(15)	(2,958)
<b>Net of trade payables (RM'000)</b>	<b>405</b>	<b>54</b>	<b>2</b>	<b>1</b>	<b>6</b>	<b>468</b>
% of total net trade payables	86.54	11.54	0.43	0.21	1.28	100.00

Note:-

The independent auditors, Ernst & Young have performed an audit of the trade payables as at 31 August 2010 and provided a reasonable assurance report that the trade payables were true and fair in accordance with Financial Reporting Standards in Malaysia.

No legal or other action has been taken against us due to our non-payment or late payment in amount owed to our suppliers.

**Inventories**

Our inventories as at 31 August 2010 were RM20.47 million and consisted mainly of raw materials of RM5.80 million, finished goods of RM4.36 million and industrial hardware for our trading operations of RM9.23 million. Our inventory turnover period for the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 was 120 days, 104 days, 98 days and 124 days respectively. The inventory turnover period decreased gradually over the past three (3) financial years under review, as we stepped-up efforts to manage our raw material procurement practices and our production planning more efficiently. In the eight (8) months FPE 31 August 2010, we recorded a higher inventory turnover period of 124 days as compared to the past three (3) financial years under review. This was mainly due to the increased purchases of raw materials and industrial hardware in June to August 2010 in anticipation of customer orders to be secured.

We are of the view that there are no material slow-moving or obsolete inventories as at 31 August 2010.

**10.6 TREND INFORMATION**

Based on our track record for the financial years under review and the latest eight (8) months FPE 31 August 2010, including our segmental analysis of revenue and profitability, our Board observes and anticipates the following trend:

**10. FINANCIAL INFORMATION (Cont'd)**

- a) We recorded a gradual increase in our revenues for the past three (3) FYE 31 December 2009. However, the sale of our secondary stainless steel products, which is our core revenue stream, collectively contributed to approximately 74.73%, 76.53% and 72.78% to our Group's total revenue for the past three (3) FYE 31 December 2009. The decline in the sale of our secondary stainless steel products was mainly attributable to the unfavourable market conditions caused by the sharp economic downturn experienced in the second half of 2008 and early 2009.

In the eight (8) months FPE 31 August 2010, we reported lower revenue of approximately RM48.18 million as compared to RM50.78 million recorded in the previous corresponding financial period. The decline was mainly due to the decrease in our sales of secondary stainless steel products, which was slightly offset by the increase in revenue contribution from our trading operations. However, we believe that our sale of secondary stainless steel products will recover in the near term due to our growing market presence as well as the expectation of improving market conditions for the secondary stainless steel industry;

- b) Our main cost component being raw material cost comprising stainless steel coils and round bars are subject to fluctuations in prices, which are driven by factors such as commodity prices (including nickel), global economic conditions, market demand and supply, as well as the production capabilities of rolling and finishing stainless steel mills.

Our Board expects such price fluctuation to continue going forward subject to the vagaries of market demand and supply conditions for such raw materials. However, based on our past performance we have been able to manage the adverse impact of raw material cost fluctuations on our operations via our pro-active steps taken towards monitoring purchases and prudent inventory management practices;

- c) We have recorded fairly consistent overall gross profit margins of 20.15%, 16.27%, 17.49% and 18.10% over the past three (3) FYE 31 December 2009 and the eight (8) months FPE 31 August 2010 respectively. Moving forward, our Board believes that the aforementioned gross profit margin range and our profits are maintainable as we continue to maintain and leverage on our key strengths. We believe that our competitive advantages and key strengths highlighted under **Section 5.7(d)** of this Prospectus, enables us to have better margins than our competitors. In particular, our Board believes that:-

- (i) being principally involved in three (3) core activities as disclosed in **Section 10.3.1** of this Prospectus, we have the flexibility of focusing our production and business operations on certain products that command better gross profit margins depending on the prevailing market demand for products of each core activity.

As the raw materials used for our manufacturing and processing activities are similar, we can opt to use the raw materials for the processing of stainless steel sheets and bars when margins are healthy, and correspondingly reduce manufacturing activities for stainless steel tubes and pipes or industrial fasteners. Conversely, if we are able to obtain good margins for stainless steel tubes and pipes or industrial fasteners, we will focus on these product categories, and reduce our processing activities accordingly. This pro-active management of raw materials allows us to maintain our gross profit margin for our manufacturing and processing activities. For our trading operations, we manage our margins by purchasing our industrial hardware products in bulk to enjoy discounts, and selling the products in smaller quantities to our large customer base.

**10. FINANCIAL INFORMATION (Cont'd)**

- (ii) with our Group's extensive range of manufactured and processed secondary stainless steel products, and traded industrial products, we are well positioned to supply the needs of a large customer base in a diverse range of end-user industries. Our wide customer base which presently totals approximately 1,000 customers spread across different target markets (both locally and overseas), is expected to provide us with significant growth opportunities as well as mitigate against any overdependence related to any single customer. Any reduction in demand by any particular customer or market segment, can be offset by sales to other customers in other market segments. We believe that our extensive portfolio of products and wide customer base gives us the ability to maintain our gross profit margins vis-a-vis our competitors; and
- (iii) our procurement practice of sourcing our raw materials and industrial hardware from a varied base of suppliers gives us the flexibility to negotiate favorable terms for pricing, availability/lead time for delivery, and quality of the raw materials and industrial hardware used for our production and trading operations. We believe that our procurement practice allows us to maintain our gross profit margin vis-à-vis our competitors who may enter into long term supply contracts/arrangements.

As at the LPD, our Board is not aware of any circumstances which would result in a significant decline in our overall gross profit margins; and

- d) Our main components of our operating expenses include amongst others, selling and distribution expenses, employee salaries, office maintenance, depreciation charges and provision for doubtful debt. We have not witnessed any significant fluctuation in the abovementioned expenses in the past and believe that such expenses will not materially affect our profitability in the future. Such expenses are generally expected to move in tandem with the growth of our business, as we increase our expenditure on expanding our product range, increase recruitment and step-up our sales and marketing activities.

Save as disclosed above, including our Management's Discussion and Analysis of Financial Conditions and Results of Operations, **Section 4**, **Section 5** and **Section 6** of this Prospectus, our Board believes that there are no other significant known trends, uncertainties, demand, commitments or events that are reasonably likely to have a material favourable or unfavourable impact on our financial performance, position and operations of our Group, or that would cause financial information disclosed in this Prospectus to be not indicative of our future operating results and financial condition.

**10.7 DIVIDEND POLICY**

The declaration of interim dividends and the recommendation of final dividend are subject to the discretion of our Board, and any final dividend for the year is subject to our shareholders' approval. It is our intention to pay dividends to shareholders in the future depending upon a number of factors, including our Group's financial performance, capital expenditure requirements, general financial conditions and any other factors considered relevant by our Board. Actual dividends proposed and declared may vary depending on the financial performance and cash flow of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

**11. ACCOUNTANTS' REPORT**

10 DEC 2010

**ACCOUNTANTS' REPORT**  
**(Prepared for inclusion in this prospectus)**

The Board of Directors  
 K. Seng Seng Corporation Berhad  
 No. 3707, Jalan 7/5  
 Taman Industri Selesa Jaya  
 43300 Balakong  
 Selangor Darul Ehsan

Dear Sirs

**K. SENG SENG CORPORATION BERHAD ("KSSC")**  
**ACCOUNTANTS' REPORT**
**1.0 Introduction**

This report has been prepared by Ernst & Young, an approved company auditor, exclusively for the inclusion in the Prospectus of KSSC in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of KSSC on the Main Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes.

**2.0 Abbreviations**

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

EAHSB	EIE Asian Holding Sdn Bhd
EY	Messrs Ernst & Young
FPE	Financial period ended
FYE	Financial year ended
Group or KSSC Group	KSSC and its subsidiaries namely KSSI, PTM, TTH, KSSM and SSG
IRB	Inland Revenue Board
KSSC or Company	K. Seng Seng Corporation Berhad
KSSI	K. Seng Seng Industries Sdn Bhd
KSSM	K. Seng Seng Manufacturing Sdn Bhd
KSSC shares	Ordinary shares of RM0.50 each in KSSC
MITI	Ministry of International Trade and Industry
NTA	Net tangible assets
N/A	Not applicable
PAT	Profit after tax
PBT	Profit before tax
PTM	PTM Steel Industry Sdn Bhd
RM and sen	Ringgit Malaysia and sen respectively
SSG	SSG Industries Sdn Bhd
TTH	Three & Three Hardware Sdn Bhd

**Ernst & Young**

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**11. ACCOUNTANTS' REPORT (Con'td)****3.0 General information****3.1 Background of KSSC**

KSSC was incorporated in Malaysia under the Act on 15 January 1985 as a private limited company under the name of Vinylon Industries Sdn Bhd. On 20 June 1986, the Company changed its name to K. Seng Seng Sdn Bhd and on 16 June 1999, the Company changed its name to K. Seng Seng Corporation Sdn Bhd. The Company were subsequently converted into a public company on 15 July 2009.

The principal place of business of the Company is located at Lot 3707, Jalan 7/5, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan. The registered office of the Company is located at Level 15-2, Faber Imperial Court, Jalan Sultan Ismail, 50774 Kuala Lumpur.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries and its associate company are set out in Note 3.3 and 3.4 respectively.

**3.2 Share capital of KSSC**

Details of the authorised and issued and paid-up share capital of KSSC since its incorporation are as follows:

**(a) Authorised Share Capital**

<b>Date of creation</b>	<b>Number of ordinary shares of RM1.00/RM0.50 each</b>	<b>Cumulative authorised share capital RM</b>
<u>Before share split</u>		
15 January 1985	250,000	250,000
20 January 1994	9,750,000	10,000,000
15 March 2004	40,000,000	50,000,000
<u>After share split into RM0.50 per share</u>		
5 March 2010	100,000,000	50,000,000

## 11. ACCOUNTANTS' REPORT (Con'td)



## 3.0 General information (continued)

## 3.2 Share capital of KSSC (continued)

## (b) Issued and Paid-up Share Capital

Date of allotment	Number of ordinary shares of RM1.00/RM0.50 each allotted	Consideration/ By way of	Resultant total issued and paid-up share capital RM
<u>Before share split</u>			
15 January 1985	2	Subscribers' shares	2
20 July 1988	72,000	Cash	72,002
9 April 1991	49,998	Cash	122,000
14 April 1993	100,000	Cash	222,000
16 March 1994	378,000	Cash	600,000
2 September 1996	900,000	Cash	1,500,000
21 July 1997	1,500,000	Cash	3,000,000
31 March 1999	500,000	Cash	3,500,000
26 September 2002	4,500,000	Cash	8,000,000
20 May 2004	2,000,000	Otherwise than cash	10,000,000
16 May 2005	4,000,000	Cash	14,000,000
16 December 2005	1,000,000	Cash	15,000,000
4 March 2010	22,500,000	Bonus issue	37,500,000
<u>After share split into RM0.50 per share</u>			
5 March 2010	75,000,000	Subdivision of shares	37,500,000
1 October 2010	876,000	Acquisition	37,968,000

**11. ACCOUNTANTS' REPORT (Con'td)****3.3 Subsidiaries of KSSC**

The details of the subsidiaries of KSSC at the date of this report are as follows:

<b>Company</b>	<b>Date and place of incorporation</b>	<b>Issued and paid-up share capital</b>	<b>Effective equity interest</b>	<b>Principal activities</b>
KSSI	2 August 1999 Malaysia	RM4,300,000	100%	Processing of secondary stainless steel long products, and sales and marketing of stainless steel industrial fasteners, rigging accessories and components and trading of industrial hardware
TTH	22 July 1995 Malaysia	RM1,500,002	100%	Sales and marketing of stainless steel products namely tubes, pipes and sheets, and trading of industrial hardware
PTM	20 July 1992 Malaysia	RM2,450,004	100%	Manufacture of stainless steel tubes and pipes and processing of secondary stainless steel flat products
KSSM	10 October 2007 Malaysia	RM500,000	100%	Manufacture of stainless steel industrial fasteners, rigging accessories and components
SSG	24 January 2006 Malaysia	RM2	100%	Currently dormant. SSG is expected to commence its business operations to manufacture surface treated steel products by middle of 2011

**3.4 Associate of KSSC**

The details of the associate of KSSC at the date of this report are as follows:

<b>Company</b>	<b>Place of incorporation</b>	<b>Issued and paid-up share capital</b>	<b>Equity interest</b>	<b>Principal activities</b>
EAHSB	Malaysia	RM1,640,000	50%	Investment holding and leasing of toiletry dispensers.

**11. ACCOUNTANTS' REPORT (Con'td)**

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**4.0 Listing Scheme**

The Listing Scheme comprises the following transactions:

**4.1 Acquisition**

On 24 July 2009, KSSC entered into a conditional share sale agreement with the vendors of PTM for the acquisition of 588,000 ordinary shares of RM1.00 each ("Sale Shares"), representing 24% equity interest in PTM for a purchase consideration of RM250,000 which was to be fully satisfied by the issuance of 500,000 KSSC Shares to the respective vendors of PTM at an issue price of RM0.50 per KSSC Share ("Principal Agreement").

On 8 March 2010, KSSC and the vendors of PTM entered into a supplemental share sale agreement to revise certain terms and conditions of the Principal Agreement, particularly the purchase consideration of the Sale Shares. Both parties, KSSC and the vendors of PTM have mutually agreed to revise the purchase consideration of the Sale Shares from RM250,000 to RM438,000, which was fully satisfied by the issuance of 876,000 KSSC Shares to the respective vendors of PTM at an issue price of RM0.50 per KSSC Share. All other terms and conditions of the Principal Agreement shall prevail and will remain binding to KSSC and the vendors.

The Acquisition was completed on 1 October 2010.

**4.2 Offer for Sale**

The offer for sale of 22,200,000 KSSC Share representing 23.13% of the enlarged issued and paid-up share capital of KSSC will be offered to identified investors at an offer price of RM0.57 per share, payable in full upon application.

**4.3 Public Issue**

In conjunction with the Offer for Sale, KSSC will implement a public issue of 20,124,000 new KSSC shares representing 20.96% of the enlarged issued and paid-up share capital of KSSC at an issue price of RM0.57 per share, payable in full upon application.

**4.4 Listing**

Upon completion of the Public Issue and Offer for Sale, KSSC will seek the listing of and quotation for its entire enlarged issued and paid-up share capital, comprising 96,000,000 KSSC Shares on the Main Market of the Bursa Malaysia Securities Berhad.

**11. ACCOUNTANTS' REPORT (Con'td)****5.0 Auditors and audited financial statements**

The auditors of KSSC and its subsidiaries for the relevant financial years/period are as follows:

<b>Company</b>	<b>FPE/FYE</b>	<b>Auditors</b>
KSSC	FYE 2007	S.H. Lim & Co.
	FYE 2008	Ernst & Young
	FYE 2009	Ernst & Young
	FPE 2010	Ernst & Young
KSSI	FYE 2007	S.H. Lim & Co.
	FYE 2008	Ernst & Young
	FYE 2009	Ernst & Young
	FPE 2010	Ernst & Young
TTH	FYE 2007	S.H. Lim & Co.
	FYE 2008	Ernst & Young
	FYE 2009	Ernst & Young
	FPE 2010	Ernst & Young
PTM	FYE 2007	S.H. Lim & Co.
	FYE 2008	Ernst & Young
	FYE 2009	Ernst & Young
	FPE 2010	Ernst & Young
KSSM	FYE 2007	N/A
	FPE 2008	S.H. Lim & Co.
	FYE 2009	Ernst & Young
	FPE 2010	Ernst & Young
SSG	FYE 2007	S.H. Lim & Co.
	FYE 2008	S.H. Lim & Co.
	FYE 2009	Ernst & Young
	FPE 2010	Ernst & Young

The historical financial information included in the report has been prepared from the financial statements of KSSC and its subsidiaries, which are prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia for the three (3) financial years ended 31 December 2007, 2008, 2009 and for the eight (8) months ended 31 August 2010. The acquisition of subsidiaries, namely KSSM and SSG, in FYE 2009 are accounted for using the pooling of interest method.

The auditors' reports of all the subsidiaries were not subject to any qualifications or modifications for all the financial years/periods under review. Our auditors report in respect to the audit of the eight months ended 31 August 2010 contained an emphasis of matter which stated that the comparative figures for statements of comprehensive income, statements of cash flows and statements of changes in equity and the notes thereto are unaudited.

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**11. ACCOUNTANTS' REPORT (Con'td)**

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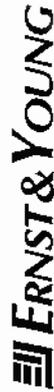
**5.0 Auditors and audited financial statements (continued)**

This report is prepared on a basis consistent with the accounting policies adopted by KSSC and its subsidiaries as disclosed in Section 8.0 of this report, which is in accordance with FRS in Malaysia.

**6.0 Dividends**

On 17 February 2010, a single tier first interim dividend in respect of the financial year ended 31 December 2009, of 20% on 15,000,000 ordinary shares, amounting to RM3,000,000 has been declared and was paid on 31 March 2010.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information

## 7.1 KSSC Group

## Consolidated statements of comprehensive income of KSSC Group

The consolidated statements of comprehensive income of KSSC Group based on its audited financial statements for the financial year ended 31 December 2007, 31 December 2008, 31 December 2009 and eight months ended 31 August 2010 and unaudited statements of comprehensive income for eight months ended 31 August 2009 are as follows:

	Note	← Audited →		2009	← Audited →		Unaudited 8 months ended 31.08.2009	Audited 8 months ended 31.08.2010
		2007	2008		2009	2008		
<b>Revenue</b>	7.2(a)	78,976,130	79,051,009	80,105,806	80,105,806	50,793,586	48,195,095	
Cost of sales	7.2(b)	(62,491,047)	(66,146,362)	(66,075,174)	(66,075,174)	(42,398,459)	(39,458,761)	
Gross profit		16,485,083	12,904,647	14,030,632	14,030,632	8,395,127	8,736,334	
Other income	7.2(c)	83,113	3,073,697	447,661	447,661	231,040	104,773	
<b>Other items of expense</b>								
Selling and distribution expenses		(1,053,097)	(1,137,138)	(1,029,113)	(1,029,113)	(654,739)	(765,567)	
Administrative expenses		(2,289,229)	(2,111,743)	(2,044,873)	(2,044,873)	(1,380,827)	(1,281,266)	
Other expenses		(1,667,615)	(945,951)	(1,086,586)	(1,086,586)	(491,445)	(1,110,915)	
Finance costs	7.2(d)	(1,299,514)	(1,208,261)	(1,042,059)	(1,042,059)	(858,818)	(671,594)	
Share of results of associate		174,655	297,400	65,763	65,763	(20,068)	235,885	
<b>Profit before tax</b>	7.2(e)	10,433,396	10,872,651	9,341,425	9,341,425	5,220,270	5,247,650	
Income tax expense	7.2(g)	(2,701,240)	(2,215,715)	(2,193,165)	(2,193,165)	(1,496,408)	(1,487,503)	
<b>Profit net of tax, representing total comprehensive income for the years/periods</b>		7,732,156	8,656,936	7,148,260	7,148,260	3,723,862	3,760,147	

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information (continued)

## 7.1 KSSC Group (continued)

## Consolidated statement of comprehensive income of KSSC Group (continued)

	← Audited →		2009 RM	2008 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
	2007 RM	2009 RM				
Total comprehensive income attributable to:						
Equity owners of the parent	7,565,071	8,625,305	6,954,917		3,594,154	3,836,499
Minority interests	167,085	31,631	193,343		129,708	(76,352)
	<u>7,732,156</u>	<u>8,656,936</u>	<u>7,148,260</u>		<u>3,723,862</u>	<u>3,760,147</u>

*Number of ordinary shares for computation*

<i>of earnings per share</i>	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Gross earnings per share (RM) *	0.14	0.14	0.12	0.12	0.07	0.07
Net earnings per share (RM) *	0.10	0.12	0.10	0.10	0.05	0.05
Gross profit margin (%) *	20.87	16.32	17.52	17.52	16.82	18.13
Profit before tax margin (%)	13.21	13.75	11.66	11.66	10.28	10.89

\* The gross earnings per share is computed based on the profit before tax divided by the number of ordinary shares after the bonus issue and share split as if it had occurred before the beginning of years/periods, the earliest period presented.

The net earnings per share is computed based on the profit after tax divided by the number of ordinary shares after the bonus issue and share split as if it had occurred before the beginning of years/periods, the earliest period presented.

The net gross profit margin is computed based on the gross profit divided by the revenue.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information (continued)

## 7.1 KSSC Group (continued)

## Consolidated statements of financial position of KSSC Group

The consolidated statements of financial position of KSSC Group based on its audited financial statements for the financial years ended 31 December 2007, 31 December 2008, 31 December 2009 and eight months ended 31 August 2010, are as follows:

	Note	← As at 31 December		→ As at 31 August	
		2007	2008	2009	2010
		RM	RM	RM	RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	7.2(i)	15,912,205	16,578,929	17,202,349	17,260,402
Investment in an associate	7.2(j)	1,644,290	1,921,690	1,987,453	2,223,338
Goodwill	7.2(k)	156,229	140,455	140,455	140,455
Deferred tax assets	7.2(l)	62,559	55,000	55,000	-
		17,775,283	18,696,074	19,385,257	19,624,195

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information (continued)

## 7.1 KSSC Group (continued)

## Consolidated statements of financial position of KSSC Group (continued)

Note	← As at 31 December		→ As at 31 August	
	2007	2008	2009	2010
	RM	RM	RM	RM
<b>ASSETS</b>				
<b>Current assets</b>				
Inventories	20,590,201	18,789,077	17,673,604	20,466,576
Trade and other receivables	23,299,352	24,917,174	26,563,710	27,693,121
Deferred expenditure	274,963	-	-	-
Tax recoverable	77,615	79,139	118,319	137,922
Cash and bank balances	3,994,595	7,755,349	11,575,975	8,724,208
	<u>48,236,726</u>	<u>51,540,739</u>	<u>55,931,808</u>	<u>57,021,827</u>
Non-current assets classified as held for sale	1,069,805	-	-	-
	<u>49,306,531</u>	<u>51,540,739</u>	<u>55,931,608</u>	<u>57,021,827</u>
<b>TOTAL ASSETS</b>	<u>67,081,814</u>	<u>70,236,813</u>	<u>75,316,865</u>	<u>76,646,022</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	7,637,185	4,067,715	3,456,526	4,352,452
Current tax payable	898,224	397,032	368,001	207,858
Hire purchase payable	327,060	512,245	424,284	269,729
Loans and borrowings	22,451,899	21,380,117	20,810,580	21,109,118
	<u>31,314,368</u>	<u>26,357,109</u>	<u>25,059,391</u>	<u>25,938,955</u>

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information (continued)

## 7.1 KSSC Group (continued)

## Consolidated statements of financial position of KSSC Group (continued)

	Note	As at 31 December		As at 31 August	
		2007	2008	2009	2010
		RM	RM	RM	RM
<b>Non-current liabilities</b>					
Hire purchase payables	7.2(s)	861,641	1,041,198	519,859	413,222
Loans and borrowings	7.2(t)	4,272,996	3,729,056	3,460,459	3,271,115
Deferred tax liabilities	7.2(l)	82,481	86,393	105,839	91,266
		5,217,118	4,856,647	4,086,157	3,775,603
<b>Total liabilities</b>		36,531,486	31,213,756	29,145,548	29,714,558
<b>Attributable to owners of the parent</b>					
Share capital	7.2(r)	15,000,000	15,000,000	15,000,000	37,500,000
Retained earnings	7.2(v)	15,153,221	23,778,528	30,733,443	9,069,942
		30,153,221	38,778,526	45,733,443	46,569,942
Minority interests		397,107	244,531	437,874	361,522
<b>Total equity</b>		30,550,328	39,023,057	46,171,317	46,931,464
<b>TOTAL EQUITY AND LIABILITIES</b>		67,081,814	70,236,813	75,316,865	76,646,022

## Notes:

- (i) The audited consolidated statements of financial position for the three financial years ended 31 December 2007, 2008 and 2009, have been re-presented to conform with the format required by FRS 101 Presentation of Financial Statements.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information (continued)

## 7.1 KSSC Group (continued)

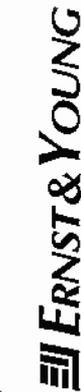
## Consolidated statements of changes in equity of KSSC Group

The consolidated statements of changes in equity of KSSC Group based on its audited financial statements for the financial years ended 31 December 2007, 31 December 2008, 31 December 2009 and eight months ended 31 August 2010 and unaudited statements of changes in equity for eight months ended 31 August 2009 are as follows:

	Note	Equity, total	Share capital RM	Attributable to owners of parent		Minority Interests RM
				Retained earnings RM	Distributable	
<b>Financial Year:</b>						
<b>As at 1 January 2007</b>		22,818,172	15,000,000	7,588,150		230,022
Total comprehensive income		7,732,156	-	7,565,071		167,085
<b>As at 31 December 2007</b>		30,550,328	15,000,000	15,153,221		397,107
<b>As at 1 January 2008</b>		30,550,328	15,000,000	15,153,221		397,107
Total comprehensive income		8,656,936	-	8,625,305		31,631
Disposal of a subsidiary		(184,207)	-	-		(184,207)
<b>As at 31 December 2008</b>		39,023,057	15,000,000	23,778,526		244,531
<b>As at 1 January 2009</b>		39,023,057	15,000,000	23,778,526		244,531
Total comprehensive income		7,148,260	-	6,954,917		193,343
<b>As at 31 December 2009</b>		46,171,317	15,000,000	30,733,443		437,874



## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information (continued)

## 7.1 KSSC Group (continued)

## Consolidated statements of cash flows of KSSC Group

The consolidated cash flow statements of KSSC Group based on its audited financial statements for the financial years ended 31 December 2007, 31 December 2008, 31 December 2009 and eight months ended 31 August 2010 and unaudited statements of cash flows for eight months ended 31 August 2009 are as follows:

	Audited		2009		Unaudited		Audited	
	2007	2008	2009	2009	8 months	8 months	ended	ended
	RM	RM	RM	RM	ended	ended	ended	ended
					31.08.2009	31.08.2010	31.08.2010	31.08.2010
					RM	RM	RM	RM
<b>Cash flows from operating activities</b>								
Cash receipts from customers	73,856,955	76,265,694	79,764,890	43,654,918	47,853,387			
Cash paid to suppliers and employees	(64,396,304)	(70,386,359)	(68,671,519)	(42,298,925)	(44,458,625)			
Cash generated from operations	9,460,651	5,879,335	11,093,371	1,355,993	3,394,762			
Tax paid	(2,556,450)	(2,674,101)	(2,241,931)	(1,763,148)	(1,627,025)			
Net cash generated from/(used in) operating activities	6,904,201	3,205,234	8,851,440	(407,155)	1,767,737			
<b>Cash flows from investing activities</b>								
Investment in associate	(20,001)	-	-	-	-	-	-	-
Proceeds from disposal of shares in associate	-	20,000	-	-	-	-	-	-
Advances to associate	-	-	(1,305,619)	-	-	-	-	-
Purchase of property, plant and equipment	(5,739,276)	(550,690)	(1,581,800)	(588,316)	(786,106)			
Proceeds from disposal of a subsidiary	-	237,060	-	-	-	-	-	-
Proceeds from disposal of non-current assets	-	3,416,560	-	-	-	-	-	-
Proceeds from disposal of property, plant and equipment	63,150	-	38,796	-	24,000			
Interest received	42,599	96,049	67,150	231,040	50,194			
Net cash (used in)/generated from investing activities	(5,653,528)	3,218,979	(2,781,473)	(357,276)	(711,912)			

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.0 Historical financial information (continued)

## 7.1 KSSC Group (continued)

## Consolidated statements of cash flows of KSSC Group (continued)

	Audited		2009 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
	2007 RM	2008 RM			
<b>Cash flows from financing activities</b>					
Dividend paid	-	-	-	-	(3,000,000)
Net drawdown/(repayment) of term loans	2,764,654	(539,286)	(597,982)	(399,562)	(187,606)
Repayment of hire purchase payables	(273,503)	(744,051)	(609,300)	(416,108)	(345,192)
Net drawdown/(repayment) of trust receipts	48,474	(48,474)	-	-	37,776
Net drawdown/(repayment) of bankers acceptance	-	-	-	(2,462,517)	259,024
Advance to directors	-	-	-	-	-
Interest paid	(1,299,514)	(1,208,261)	(1,042,059)	(858,818)	(671,594)
Net cash generated from/(used in) financing activities	1,240,111	(2,540,072)	(2,249,341)	(4,137,005)	(3,907,592)
<b>Net increase in cash and bank balance</b>	2,490,784	3,884,141	3,820,626	(4,901,436)	(2,851,767)
<b>Cash and cash equivalent at beginning of years/period</b>	1,380,424	3,871,208	7,755,349	7,755,349	11,575,975
<b>Cash and cash equivalent at end of years/period</b>	3,871,208	7,755,349	11,575,975	2,853,913	8,724,208

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements

## (a) Revenue

	Audited		Unaudited		Audited	
	2007	2008	2009	8 months ended 31.08.2009	8 months ended 31.08.2010	
	RM	RM	RM	RM	RM	RM
Rental income	168,800	52,800	25,200	16,800	15,600	
Sales of goods	78,807,330	78,998,209	80,080,606	50,776,786	48,179,495	
	78,976,130	79,051,009	80,105,806	50,793,586	48,195,095	

## (b) Cost of sales

Cost of sales, in relation to invoiced value of sale of goods, consists of raw materials, labour and overheads.

## (c) Other income

	Audited		Unaudited		Audited	
	2007	2008	2009	8 months ended 31.08.2009	8 months ended 31.08.2010	
	RM	RM	RM	RM	RM	RM
Bad debts recovered	5,000	106,366	4,500	3,000	25,117	
Sundry Income	17,955	2,448	-	-	-	
Interest income:						
- deposits with banks	42,599	96,049	67,150	50,078	34,807	
- associate	40,053	43,344	152,789	149,619	15,387	
- overprovision in prior year	(25,997)	-	-	-	-	
						178

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (c) Other income (continued)

	← Audited →		2009 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
	2007 RM	2008 RM			
Gain on disposal of assets	-	2,346,755	38,097	-	21,748
Realised gain on foreign exchange	3,503	478,735	150,877	28,343	-
Unrealised gain on foreign exchange	-	-	34,248	-	7,714
	83,113	3,073,697	447,661	231,040	104,773

## (d) Finance costs

	← Audited →		2009 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
	2007 RM	2008 RM			
Interest expense on:					
Bank overdrafts	42,885	21,771	18,529	13,100	11,069
Bankers acceptances	1,081,472	868,678	751,104	661,436	469,368
Term loan	127,787	235,757	205,370	138,204	149,352
Hire purchase	47,570	82,055	67,056	46,078	41,805
	1,299,514	1,208,261	1,042,059	858,818	671,594

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (e) Profit before tax

The following items have been included in arriving at profit before tax:

	← 2007 RM	Audited 2008 RM	2009 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
Audit remuneration					
- current period	40,000	110,000	111,500	75,812	74,336
- overprovision in prior year	-	-	(4,000)	-	-
Provision for doubtful debt	423,423	52,542	74,282	-	-
Bad debts written off	-	15,921	147,204	-	-
Depreciation	1,014,655	959,258	957,682	587,038	801,569
Motor vehicle hiring charges	36,566	-	-	-	-
Write-down of inventories	-	229,954	-	-	-
Loss on disposal of subsidiary	-	22,085	-	-	-
Gain on disposal of property, plant and equipment	-	-	-	-	14,464
Property, plant and equipment written off	-	-	260	-	-
Rental of premises	36,860	-	-	-	-
Employee benefit expenses	2,511,569	3,002,277	2,941,707	1,857,327	1,851,631
Realised loss on foreign exchange	42,183	-	-	28,343	291,258
Unrealised loss on foreign exchange	-	-	-	-	21,948

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (f) Employee benefit expenses

	← Audited →		2009 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
	2007 RM	2008 RM			
Salaries, bonuses and allowances	2,034,906	2,511,600	2,511,019	1,648,223	1,569,463
Contributions to defined contribution plan	188,614	223,389	228,312	149,232	140,887
Other employee benefits	288,049	267,288	202,376	59,872	141,281
	<u>2,511,569</u>	<u>3,002,277</u>	<u>2,941,707</u>	<u>1,857,327</u>	<u>1,851,631</u>

Included in employee benefit expenses are the following directors' remuneration:

	← Audited →		2009 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
	2007 RM	2008 RM			
Directors' remuneration					
- fees	20,000	20,000	20,000	-	-
- salaries and other emoluments	357,733	448,760	502,858	274,800	283,200
	<u>377,733</u>	<u>468,760</u>	<u>522,858</u>	<u>274,800</u>	<u>283,200</u>

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (g) Income tax expense

Major components of income tax expense

	←	Audited	→	Unaudited	Audited
	2007	2008	2009	8 months	8 months
	RM	RM	RM	ended	ended
				31.08.2009	31.08.2010
				RM	RM
Current year income tax:					
- Malaysian income tax	2,693,581	2,207,800	2,200,556	1,523,232	1,450,458
- Under/(over) provision in respect of prior years/periods	545	(5,644)	(26,837)	(26,824)	(3,382)
	<u>2,694,126</u>	<u>2,202,156</u>	<u>2,173,719</u>	<u>1,496,408</u>	<u>1,447,076</u>

Statement of comprehensive income:

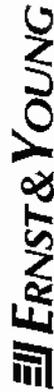
Current year income tax:  
 - Malaysian income tax  
 - Under/(over) provision in respect of prior years/periods

Deferred tax:

- Relating to origination and reversal of temporary difference  
 - Relating to reduction in Malaysian income tax rate  
 - Under/(over)provision in prior years/periods

Income tax expense recognised in profit or loss

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (g) Income tax expense (continued)

Reconciliation between tax expense and accounting profit

The reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows:

	Audited		2009 RM	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
	2007 RM	2008 RM			
Profit before tax	10,433,396	10,872,651	9,341,425	5,220,270	5,247,650
Tax at Malaysian statutory tax rate of 25% (2009: 25%, 2008: 26%, 2007: 27%)	2,817,017	2,826,889	2,335,356	1,327,192	1,311,912
Adjustments:					
Effect of 20% tax rate on chargeable income	(117,747)	(29,846)	-	-	-
Effect of reduction in tax rate	(432)	(1,040)	-	-	-
Non-deductible expenses	136,966	79,728	91,241	196,040	124,557
Income not subject to tax	(256)	(604,414)	-	-	(5,436)
Deferred tax assets not recognised on capital allowance	-	-	10,892	-	81,731
Utilisation of previously unrecognised tax losses	(89,303)	(62,229)	-	-	-

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (g) Income tax expense (continued)

Reconciliation between tax expense and accounting profit

	←	Audited		→	Unaudited	Audited
	2007	2008	2009	2009	8 months	8 months
	RM	RM	RM	RM	ended	ended
					31.08.2009	31.08.2010
					RM	RM
Share of results of an associate		(47,157)	(77,324)	(16,441)	-	(58,971)
Under/(over) provision of income tax in respect of previous years/periods	545	(5,644)	(26,837)	(26,824)	(26,824)	(3,382)
Under/(over) provision of deferred tax in prior years/periods	1,607	89,595	(201,046)	(201,046)	-	37,092
Tax expense for the year/period	2,701,240	2,215,715	2,193,165	2,193,165	1,496,408	1,487,503

Domestic income tax is calculated at the Malaysia statutory tax rate of 25% (2009 : 25% , 2008 : 26% , 2007 : 27%) of the estimated assessable profit for the year.

11. ACCOUNTANTS' REPORT (Con'td)



(h) Dividends

Dividends in respect of year 2009 RM	Dividends recognized in period 31.08.2010 RM
3,000,000	3,000,000

**Recognised during the financial period:**  
 20% single tier first interim dividend for 2009  
 (20 sen per ordinary share)

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (i) Property, plant and equipment

	Freehold land RM	Buildings RM	Office, electrical and factory equipment, electrical installation and computer system RM	Plant and machinery, furniture, fittings, and renovation RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
<b>At 31 August 2010</b>							
<b>Cost</b>							
As at 1 January 2010	5,966,362	6,002,431	804,891	6,450,280	1,505,222	2,219,136	22,948,322
Additions	-	-	107,821	149,030	93,898	519,355	870,104
Disposals	-	-	(440)	(20,485)	(53,338)	-	(74,263)
Transfer from/(to) plant and machinery	-	-	-	2,099,066	-	(2,099,066)	-
<b>At 31 August 2010</b>	<b>5,966,362</b>	<b>6,002,431</b>	<b>912,272</b>	<b>8,677,891</b>	<b>1,545,782</b>	<b>639,425</b>	<b>23,744,163</b>
<b>Accumulated depreciation</b>							
As at 1 January 2010	-	863,797	714,565	3,077,722	1,089,889	-	5,745,973
Charge for the period	-	80,033	38,901	530,631	152,004	-	801,569
Disposals	-	-	(330)	(10,114)	(53,337)	-	(63,781)
<b>At 31 August 2010</b>	<b>-</b>	<b>943,830</b>	<b>753,136</b>	<b>3,598,239</b>	<b>1,188,556</b>	<b>-</b>	<b>6,483,761</b>
<b>Net carrying amount</b>							
<b>At 31 August 2010</b>	<b>5,966,362</b>	<b>5,058,601</b>	<b>159,136</b>	<b>5,079,652</b>	<b>357,226</b>	<b>639,425</b>	<b>17,260,402</b>

## 11. ACCOUNTANTS' REPORT (Con'td)

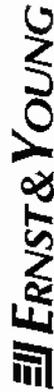


## 7.2 Notes to the audited financial statements (continued)

## (i) Property, plant and equipment (continued)

	Freehold land RM	Buildings RM	Office, electrical and factory equipment, electrical installation and computer system RM	Plant and machinery, furniture, fittings, and renovation RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
<b>At 31 December 2009</b>							
<b>Cost</b>							
As at 1 January 2009	5,966,362	6,002,431	787,917	5,692,702	1,584,440	1,413,086	21,446,938
Additions	-	-	18,172	757,578	-	806,050	1,581,800
Disposals	-	-	(548)	-	(79,218)	-	(79,766)
Write off	-	-	(650)	-	-	-	(650)
<b>At 31 December 2009</b>	<b>5,966,362</b>	<b>6,002,431</b>	<b>804,891</b>	<b>6,450,280</b>	<b>1,505,222</b>	<b>2,219,136</b>	<b>22,948,322</b>
<b>Accumulated depreciation</b>							
As at 1 January 2009	-	743,748	664,745	2,498,073	961,443	-	4,868,009
Charge for the year	-	120,049	50,320	579,649	207,664	-	957,682
Disposals	-	-	(110)	-	(79,218)	-	(79,328)
Write off	-	-	(390)	-	-	-	(390)
<b>At 31 December 2009</b>	<b>-</b>	<b>863,797</b>	<b>714,565</b>	<b>3,077,722</b>	<b>1,089,889</b>	<b>-</b>	<b>5,745,973</b>
<b>Net carrying amount</b>							
<b>At 31 December 2009</b>	<b>5,966,362</b>	<b>5,138,634</b>	<b>90,326</b>	<b>3,372,558</b>	<b>415,333</b>	<b>2,219,136</b>	<b>17,202,349</b>

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (i) Property, plant and equipment (continued)

	Freehold land RM	Buildings RM	Office, electrical and factory equipment, electrical installation and computer system RM	Plant and machinery, furniture, fittings, and renovation RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
<b>At 31 December 2008</b>							
<b>Cost</b>							
As at 1 January 2008	5,966,362	6,002,431	887,990	5,460,869	1,584,440	-	19,902,092
Additions	-	-	23,618	236,386	-	1,413,086	1,673,090
Disposals	-	-	(123,691)	(4,553)	-	-	(128,244)
<b>At 31 December 2008</b>	<b>5,966,362</b>	<b>6,002,431</b>	<b>787,917</b>	<b>5,692,702</b>	<b>1,584,440</b>	<b>1,413,086</b>	<b>21,446,938</b>
<b>Accumulated depreciation</b>							
As at 1 January 2008	-	623,699	679,238	1,999,356	687,594	-	3,989,887
Charge for the year	-	120,049	65,851	499,509	273,849	-	959,258
Disposals	-	-	(80,344)	(792)	-	-	(81,136)
<b>At 31 December 2008</b>	<b>-</b>	<b>743,748</b>	<b>664,745</b>	<b>2,498,073</b>	<b>961,443</b>	<b>-</b>	<b>4,868,009</b>
<b>Net carrying amount</b>							
<b>At 31 December 2008</b>	<b>5,966,362</b>	<b>5,258,683</b>	<b>123,172</b>	<b>3,194,629</b>	<b>622,997</b>	<b>1,413,086</b>	<b>16,578,929</b>

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (i) Property, plant and equipment (continued)

	Freehold land RM	Buildings RM	Office, electrical and factory equipment, electrical installation and computer system RM	Plant and machinery, furniture, fittings, and renovation RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
<b>At 31 December 2007</b>							
<b>Cost</b>							
As at 1 January 2007	1,852,222	7,338,300	800,168	3,991,343	761,981	-	14,744,014
Additions	4,114,140	-	97,107	1,469,526	1,038,313	-	6,719,086
Disposals	-	-	(9,285)	-	(215,854)	-	(225,139)
Reclassified as assets held for sales	-	(1,335,869)	-	-	-	-	(1,335,869)
<b>At 31 December 2007</b>	<b>5,966,362</b>	<b>6,002,431</b>	<b>887,990</b>	<b>5,480,869</b>	<b>1,584,440</b>	<b>-</b>	<b>19,902,092</b>
<b>Accumulated depreciation</b>							
As at 1 January 2007	-	769,715	589,983	1,495,502	610,207	-	3,465,407
Charge for the year	-	120,048	97,514	503,854	293,239	-	1,014,655
Disposals	-	-	(8,259)	-	(215,852)	-	(224,111)
Reclassified as assets held for sales	-	(266,064)	-	-	-	-	(266,064)
<b>At 31 December 2007</b>	<b>-</b>	<b>623,699</b>	<b>679,238</b>	<b>1,999,358</b>	<b>687,594</b>	<b>-</b>	<b>3,989,887</b>
<b>Net carrying amount</b>							
<b>At 31 December 2007</b>	<b>5,966,362</b>	<b>5,378,732</b>	<b>208,752</b>	<b>3,461,513</b>	<b>896,846</b>	<b>-</b>	<b>15,912,205</b>

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (i) Property, plant and equipment (continued)

(a) Net carrying amount of property, plant and equipment held under hire purchase arrangements are as follows:

	← 12 months ended 31 December 2007		→ 8 months ended 31.08.2010	
	RM	RM	RM	RM
Plant and machinery	332,783	1,403,090	976,427	799,479
Motor vehicles	824,470	587,189	391,457	342,349
	1,157,253	1,990,279	1,367,884	1,141,828

(b) The net carrying amount of property, plant and equipment pledged as securities for borrowings are as follows:

	← 12 months ended 31 December 2007		→ 8 months ended 31.08.2010	
	RM	RM	RM	RM
Freehold land	5,966,362	5,966,362	5,966,362	5,966,362
Buildings	5,378,732	5,258,683	5,138,634	5,058,601
Plant and machinery	1,056,085	906,007	-	-
	12,401,179	12,131,052	11,104,996	11,024,963

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (j) Investments in an associate

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Unquoted shares, at cost	840,000	820,000	820,000	820,000
Share of post-acquisition reserves	804,290	1,101,690	1,167,453	1,403,338
	1,644,290	1,921,690	1,987,453	2,223,338

Details of the associate are as follows:

Name	Principal activities	Country of incorporation	← 12 months ended 31 December		→ 8 months ended	
			2007	2008	2009	31.08.2010
			51%	50%	50%	50%
EIE Asian Holding Sdn. Bhd.	Investment holding and leasing of equipment	Malaysia				
			164,194	92,108	527,644	243,950
			14,447,472	13,793,748	13,443,084	13,068,596
			14,611,666	13,885,856	13,970,728	13,312,546

The summarised financial information of the associate is as follows:

Assets and liabilities	
Non-current assets	243,950
Current assets	13,068,596
Total assets	13,312,546

## 11. ACCOUNTANTS' REPORT (Con'td)



## (k) Investments in an associate (continued)

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Non-current liabilities	91,370	15,741	-	-
Current liabilities	10,650,231	9,910,613	9,427,216	8,859,444
Total liabilities	10,741,601	9,926,354	9,427,216	8,859,444

**Results**

Revenue	16,787,368	18,718,992	18,050,088	10,665,171
Profit for the period, after taxation and minority interests	342,465	607,946	114,739	367,758

The auditors of the associate is a firm other than Ernst & Young.

**(k) Goodwill**

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
At 1 January	156,229	156,229	140,455	140,455
Disposal of subsidiary	-	(15,774)	-	-
At 31 December	156,229	140,455	140,455	140,455

The goodwill is solely related to PTM Steel Industry Sdn Bhd.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (k) Goodwill (continued)

**Impairment test for goodwill**

The recoverable amount of goodwill is determined based on value-in-use calculations using cash flow projections based on financial budgets approved by management covering a five-year period with expected growth. Management believes that any reasonably possible change in the key assumptions would not cause the carrying values of the goodwill to materially exceed their recoverable amounts. The pre-tax discount applied to the cash flow projections is 3.35% (2009: 4.75%, 2008: 6.25% and 2007: 6.25%).

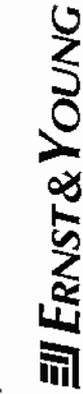
**Key assumptions used in value-in-use calculations**

Revenue	:	the bases used to determine the future earnings potential are historical sales and expected growth rates of the relevant industry.
Gross margins	:	gross margins are based on the average gross margin achieved in the past years.
Operating expenses	:	the bases used to determine the values assigned, staff costs, depreciation and amortisation, and other operating expenses. The value assigned to the key assumption reflects past experience and management's commitment to maintain the operating expenses to an acceptable level.
Discount rates	:	In determining appropriate discount rates, consideration has been given to applicable borrowing rates.

**Sensitivity to changes in assumptions**

With regard to the assessment of value-in-use of the respective CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the unit to materially exceed its recoverable amount.

## 11. ACCOUNTANTS' REPORT (Con'td)



## (l) Deferred tax

Deferred income tax as at year/period relates to the following:

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
At 1 January	(12,808)	(19,922)	(31,393)	(50,839)
Recognised in comprehensive income statement	(7,114)	(13,559)	(19,446)	(40,427)
Disposal of subsidiary	-	2,088	-	-
At 31 December/31 August	(19,922)	(31,393)	(50,839)	(91,266)

Presented after appropriate offsetting as follows:  
 Deferred tax liabilities  
 Deferred tax assets

	(82,481)	(86,393)	(105,839)	(91,266)
	62,559	55,000	55,000	-
	(19,922)	(31,393)	(50,839)	(91,266)

## (m) Inventories

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Raw materials	4,637,912	5,453,508	5,547,034	5,797,414
Work-in-progress	119,171	84,668	408,351	814,300
Finished goods	8,661,244	6,104,953	3,295,122	4,358,229
Consumables	347,124	216,207	229,723	234,853
Packing materials	63,779	57,655	44,221	35,981
Trading goods	6,760,971	6,872,086	8,149,153	9,225,799
	20,590,201	18,789,077	17,673,604	20,466,576

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (n) Trade receivables

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
<b>Current</b>				
<b>Trade receivables</b>				
Third parties	22,346,576	21,715,396	23,878,186	25,160,374
Amount due from Associate	907,262	2,851,857	912,404	-
	23,253,838	24,567,253	24,790,590	25,160,374
Less: Allowance for impairment for third parties	(430,345)	(180,594)	(94,765)	(69,648)
Trade receivables, net	22,823,493	24,386,659	24,695,825	25,090,726
<b>Other receivables</b>				
Sundry receivables	311,105	237,691	1,513,504	2,183,881
Refundable deposits	90,650	78,950	82,130	71,880
Prepayments	74,104	213,874	272,251	346,634
	475,859	530,515	1,867,885	2,602,395
	23,299,352	24,917,174	26,563,710	27,693,121
<b>Total trade and other receivables</b>	23,299,352	24,917,174	26,563,710	27,693,121
<b>Add: Cash and bank balances (Note p)</b>	3,994,595	7,755,349	11,575,975	8,724,208
<b>Total loans and receivables</b>	27,293,947	32,672,523	38,139,685	36,417,329

Trade receivables are non-interest bearing and are generally on 30 to 150 days (2009, 2008 and 2007: 30 to 150 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (n) Trade receivables (continued)

## (i) Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Neither past due nor impaired	6,193,176	4,860,080	8,319,731	7,641,274
1 to 30 days past due not impaired	6,080,200	4,360,463	4,893,559	5,934,096
31 to 60 days past due not impaired	3,139,121	2,394,858	4,982,921	4,446,147
61 to 90 days past due not impaired	3,238,377	3,244,885	2,966,757	4,344,014
91 to 120 days past due not impaired	2,556,545	1,580,535	1,316,598	1,376,623
More than 121 days past due not impaired	1,616,074	7,945,838	2,216,259	1,348,572
Impaired	16,630,317	19,526,579	16,376,094	17,449,452
	430,345	180,594	94,765	69,648
	23,253,838	24,567,253	24,790,590	25,160,374

## (ii) Receivables that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (n) Trade receivables (continued)

(iii) Receivables that are past due but not impaired

The Group has trade receivables amounting to RM17,498,477 (2009: RM16,376,094, 2008: RM19,523,083 and 2007: RM16,481,438) that are past due at the reporting date but not impaired.

Non of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

(iv) Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date amounting RM69,648 (2009: RM94,765, 2008: RM180,594 and 2007: RM430,345) are individually impaired and the nominal amounts and the allowance for impairment are the same.

The movement of the allowance accounts use to record the impairment is as follows :

Movement in allowance accounts:

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	2010
	RM	RM	RM	RM
At 1 January	(6,922)	(430,346)	(180,594)	(94,765)
Charge for the years/period	(423,423)	(52,542)	(74,282)	-
Recovered during the years/period	-	106,366	4,500	25,117
Writeback during the years/period	-	195,928	155,611	-
At 31 December/31 August	(430,345)	(180,594)	(94,765)	(69,648)

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (n) Trade receivables (continued)

(iv) Receivables that are impaired (continued)

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

(v) Refundable deposits

Refundable deposits are mainly deposits paid in relation to the rental of factory.

(o) Deferred expenditure

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Deferred expenditure				
At 1 January	53,155	274,963	-	-
Addition	296,174	-	-	-
Disposal of a subsidiary	-	(274,963)	-	-
	349,329	-	-	-
Amortisation	(74,366)	-	-	-
At 31 December/31 August	274,963	-	-	-

Deferred expenditure was prepaid expenditure incurred by a subsidiary for the generation of contract revenue which has been disposed in year 2008.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (p) Cash and cash equivalents

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Cash at banks and on hand	2,375,300	4,637,306	8,390,781	5,504,207
Fixed deposits with licenced banks	1,619,295	3,118,043	3,185,194	3,220,001
Cash and bank balances	3,994,595	7,755,349	11,575,975	8,724,208

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise the following at the reporting date:

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Fixed deposits with licenced banks	1,619,295	3,118,043	3,185,194	3,220,001
Cash at bank and on hand	2,375,300	4,837,306	8,390,781	5,504,207
Bank overdrafts	(123,387)	-	-	-
Cash and cash equivalents	3,871,208	7,955,349	11,575,975	8,724,208

The Group's deposits with licenced banks amounting to RM3,220,001 (2009: RM3,185,194, 2008: RM3,118,043 and 2007: RM1,619,295) are pledged as securities for borrowings Note 7.2 (t).

## 11. ACCOUNTANTS' REPORT (Con'td)



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## 7.2 Notes to the audited financial statements (continued)

## (p) Cash and cash equivalents (continued)

The weighted average effective interest rates of fixed deposits with licensed banks at the balance sheet date were as follows:

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	%	%	%	%
Licensed banks	3.00	3.00	2.11	2.09

The maturities of fixed deposits with licensed banks at the balance sheet date were as follows:

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	Days	Days	Days	Days
Licensed banks	201	40	40	40

## (q) Non-current assets classified as held for sale

In 2007, the Group entered into an agreement to dispose certain properties together with two units of 1 1/2 storey semi-detached factory for a total consideration of RM3,500,000.

The carrying amounts of the properties had been presented as non-current assets held for sale as at 31 December 2007.

The sales was completed and recognised in year 2008, total gain was amounted to RM2,346,755.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (r) Share capital

	← 12 months ended 31 December 2007	← 12 months ended 31 December 2008	← 12 months ended 31 December 2009	← 8 months ended 31.08.2010
<b>Number of ordinary shares</b>				
Authorised share capital	50,000,000	50,000,000	50,000,000	50,000,000
At 1 January/31 December/31 August	-	-	-	50,000,000
Subdivided to RM0.50 each *	50,000,000	50,000,000	50,000,000	100,000,000
Issued and fully paid				
At 1 January	15,000,000	15,000,000	15,000,000	15,000,000
Bonus issue ^	-	-	-	22,500,000
Subdivided to RM0.50 each *	15,000,000	15,000,000	15,000,000	37,500,000
At 31 December/31 August	15,000,000	15,000,000	15,000,000	75,000,000
<b>Amount</b>				
Authorised share capital	50,000,000	50,000,000	50,000,000	50,000,000
At 1 January/31 December/31 August	15,000,000	15,000,000	15,000,000	15,000,000
Bonus issue ^	-	-	-	22,500,000
At 31 December/31 August *	15,000,000	15,000,000	15,000,000	37,500,000

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (r) Share capital (continued)

<sup>^</sup> On 1 March 2010, the paid up capital of the Group had increased from RM15,000,000 to RM37,500,000 through an allotment of 22,500,000 ordinary shares of RM1.00 each through a bonus issue by way of capitalising the sum of RM22,500,000 being part of retained earnings as at 28 February 2010. Such new shares when issued rank pari passu in all aspect with the existing ordinary shares of the Group.

<sup>\*</sup> On 5 March 2010, the authorised capital of the Group which is RM50,000,000 had been subdivided from 50,000,000 ordinary shares of RM1.00 each into 100,000,000 ordinary shares of RM0.50 each.

## (s) Hire purchase payables

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
<b>Minimum hire purchase payments:</b>				
Not later than 1 year	370,249	570,904	488,363	304,372
Later than 1 year and not later than 2 years	205,644	583,828	147,612	167,148
Later than 2 years and not later than 5 years	344,462	521,934	438,188	308,534
Later than 5 years	450,595	78,213	-	-
	1,370,950	1,754,879	1,074,163	780,054
Less: Future finance charges	(182,249)	(201,436)	(130,020)	(97,103)
Present value of hire purchase liabilities	1,188,701	1,553,443	944,143	682,951

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (s) Hire purchase payables

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Present value of hire purchase liabilities:				
Not later than 1 year	327,060	512,245	424,284	269,729
Later than 1 year and not later than 2 years	183,258	521,220	127,167	145,020
Later than 2 years and not later than 5 years	325,936	452,642	392,692	268,202
Later than 5 years	352,447	67,336	-	-
	1,188,701	1,553,443	944,143	682,951
Less: Amount due within 12 months	(327,060)	(512,245)	(424,284)	(269,729)
Amount due after 12 months	861,641	1,041,198	519,859	413,222

The effective interest rates of hire purchase at the balance sheet date ranged from 2.25% to 3.79% (2009 and 2008: 2.25% to 4.75%, 2007: 0% to 8.64%).

## (t) Borrowings

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Short term borrowings				
Secured:				
Bank overdrafts	123,387	-	-	-
Bankers acceptances	21,682,054	20,777,479	20,537,327	20,796,351
Trust receipts	48,474	-	-	37,776
Term loans	597,984	602,638	273,253	274,991
	22,451,899	21,380,117	20,810,580	21,109,118

## 11. ACCOUNTANTS' REPORT (Con'td)



7 Notes to the audited financial statements (continued)

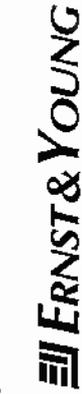
## (t) Borrowings (continued)

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
<b>Long term borrowings</b>				
Secured:				
Term loans	4,272,996	3,729,056	3,460,459	3,271,115
<b>Total borrowings</b>				
Secured:				
Bank overdrafts	123,387	-	-	-
Bankers acceptances	21,682,054	20,777,479	20,537,327	20,796,351
Trust receipts	48,474	-	-	37,776
Term loans	4,870,980	4,331,694	3,733,712	3,546,106
	26,724,895	25,109,173	24,271,039	24,380,233

The repayment periods of the term loans as at balance sheet date are as follows:

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Not later than 1 year	22,451,899	21,380,117	20,810,580	21,109,118
Later than 1 year and not later than 2 years	540,229	293,703	328,599	294,362
Later than 2 years and not later than 5 years	858,376	1,056,321	1,345,752	1,101,918
Later than 5 years	2,874,391	2,379,032	1,786,108	1,874,835
	26,724,895	25,109,173	24,271,039	24,380,233

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (t) Borrowings (continued)

The effective interest rates of floating rate interest borrowing at the balance sheet date ranged from BLR+0.75% to BLR+0.8% (2009: BLR+0% to BLR+0.8%, 2008: BLR-1.5% to BLR+0.8% and 2007: 3.8% to BLR+0.8%). The effective interests rate for the fixed rate interest borrowings ranged from 4% to 6.25% for year 2008 and 2007.

The secured bank overdrafts, bankers acceptances, trust receipts and term loans of the Group are secured by the following:

- (i) Legal charge over the freehold land and buildings of the Group;
- (ii) Facility agreement;
- (iii) Plant and machinery of the Group;
- (iv) Joint and several guarantee by the directors of the Group; and
- (v) Fixed deposits of the Group.

## (u) Trade payables

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
<b>Current</b>				
<b>Trade payables</b>				
Third parties	3,265,938	2,810,886	2,408,000	3,426,507
<b>Other payables</b>				
Accruals	198,556	638,386	548,422	320,249
Deposits	661,755	48,600	48,600	50,200
Sundry payables	3,510,936	569,843	451,504	555,496
	4,371,247	1,256,829	1,048,526	925,945

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (u) Trade payables (continued)

	← 12 months ended 31 December		→ 8 months ended	
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
Total trade and other payables	7,637,185	4,067,715	3,456,526	4,352,452
Add: Loans and borrowings (note t)	26,724,895	25,109,173	24,271,039	24,380,233
Add: Hire purchase payable (note s)	1,188,701	1,553,443	944,143	682,951
Total financial liabilities carried at amortised cost	35,550,781	30,730,331	28,671,708	29,415,636

(i) Trade payables

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 120 days (2009, 2008 : 30 to 120 days), (2007 : 30 to 150 days) terms.

(ii) Other payables

These amounts are non-interest bearing. Other payables are normally settled on 30 to 150 days (2009, 2008, 2007: 30 to 150 days) terms.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (v) Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company has elected for the irrevocable option to disregard the 108 balance as at 31 December 2009. Hence, the Company will be able to distribute dividends out of its entire retained earnings as at 31 August 2010 under the single tier system.

## (w) Capital commitments

Capital expenditure as at the reporting date is as follows:

	← 12 months ended 31 December 2007	2008	2009	→ 8 months ended 31.8.2010
	RM	RM	RM	RM
Capital expenditure:				
Approved and contracted for:				
Property, plant and equipment	-	885,000	790,990	382,775

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (x) Related party transactions

## (i) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial years/periods:

	← 12 months ended 31 December	→ 2009	← 31.08.2009	→ 8 months ended 31.08.2010
	2007	2008	2009	31.08.2010
	RM	RM	RM	RM
<b>Associate:</b>				Unaudited
Sale of goods	2,434,238	2,908,278	2,565,708	1,776,013
Interest received	40,053	26,680	155,789	149,619
Rental received	8,000	-	-	-

## (ii) Compensation of key management personnel

Key management personnel comprises the directors of the Company having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Compensation to key management personnel comprised directors' remuneration as disclosed in Note (f).

11. ACCOUNTANTS' REPORT (Con'td)



**ERNST & YOUNG**

7.2 Notes to the audited financial statements (continued)

(y) Fair value of financial instruments

A. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

	Note	Group 31.8.2010 Carrying amount	Fair value
<b>Financial liabilities:</b>			
Hire purchase payables	7.2 (s)	682,951	<u>542,067</u>
<b>Financial liabilities:</b>			
Hire purchase payables	Note	Group 31.12.2009 Carrying amount	Fair value
	7.2 (s)	944,143	<u>854,537</u>

11. ACCOUNTANTS' REPORT (Con'td)



7.2 Notes to the audited financial statements (continued)

(x) Fair value of financial instruments (continued)

B. Determination of fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

Trade and other receivables (current)	<u>7.2(n)</u>
Trade and other payables (current)	7.2(u)
Loans and borrowings (current)	7.2(t)
Loans and borrowings (non-current)	7.2(t)

11. ACCOUNTANTS' REPORT (Con'to)



7.2 Notes to the audited financial statements (continued)

(x) Fair value of financial instruments (continued)

B. Determination of fair value (continued)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of the current portion of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

The fair values of current loans and borrowings are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

(z) Financial risk management objectives and policies

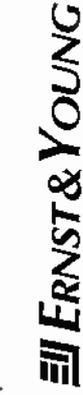
The Group are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Executive Director and Financial Controller.

It is, and has been throughout the current and previous financial year, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group do not apply hedge accounting.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

11. ACCOUNTANTS' REPORT (Con'td)



7.2 Notes to the audited financial statements (continued)

(z) Financial risk management objectives and policies

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets, cash and bank balances, the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the reporting date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position;

Information regarding credit enhancements for trade and other receivables is disclosed in Note 7.2 (n).

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date are as follows:

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (z) Financial risk management objectives and policies

## (a) Credit risk (continued)

	31.12.2009		Group		31.8.2010	
	RM	% of total	RM	% of total	RM	% of total
By country:						
Malaysia	19,261,912	78%	21,109,416	84%		
Singapore	4,380,227	18%	2,845,625	11%		
Papua New Guinea	1,079,198	4%	943,767	4%		
Others countries	69,253	0%	261,566	1%		
	24,790,590	100%	25,160,374	100%		

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 7.2 (n).

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 7.2 (n).

11. ACCOUNTANTS' REPORT (Con'td)



7.2 Notes to the audited financial statements (continued)

(z) Financial risk management objectives and policies (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

At the reporting date, approximately 85% (2009: 84%, 2008: 87% and 2007: 85%) of the Group's loans and borrowings and hire purchase payables will mature in less than one year based on the carrying amount reflected in the financial statements.

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (z) Financial risk management objectives and policies (continued)

## (b) Liquidity risk (continued)

## Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	As at 31.08.2010					Total RM
	On demand or within one year RM	More than one year less than two years RM	More than two year and less than five years RM	More than five years RM	Total RM	
<b>Group</b>						
<b>Financial liabilities:</b>						
Trade and other payables	4,352,452	-	-	-	-	4,352,452
Hire purchase payables	304,372	167,148	308,534	-	-	780,054
Loans and borrowings	21,127,882	314,448	1,177,071	2,003,261	24,622,662	24,622,662
<b>Total undiscounted financial liabilities</b>	<b>25,784,706</b>	<b>481,596</b>	<b>1,485,605</b>	<b>2,003,261</b>	<b>2,003,261</b>	<b>29,755,168</b>

11. ACCOUNTANTS' REPORT (Con'td)



7.2 Notes to the audited financial statements (continued)

(z) Financial risk management objectives and policies (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from their loans and borrowings.

The Group's policy is to manage interest cost through a combination of fixed and floating rate debts depending on the prevailing market interest rate movements. However, the Group may consider to enter into the interest rate swaps should be there exist any inflationary pressure on the current market interest rates. As at the reporting date, the Group do not engage any interest hedging instruments in respect of such interest rate fluctuations.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM284,000 higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

11. ACCOUNTANTS' REPORT (Con'td)



7.2 Notes to the audited financial statements (continued)

(z) Financial risk management objectives and policies (continued)

(d) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily RM. The foreign currencies in which these transactions are denominated are mainly US Dollars ("USD"), Singapore Dollar ("SGD") and Brunei Dollars ("BND").

Approximately 18% (2009: 28%) of the Group's sales are denominated in foreign currencies whilst almost 42% (2009: 47%) of costs are denominated in the respective functional currencies of the Group entities. The Group's trade receivable and trade payable balances at the reporting date have similar exposures.

The Group also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances (mainly in SGD) amount to RM24,252 (2009: RM24,176) for the Group.

11. ACCOUNTANTS' REPORT (Con'td)



7.2 Notes to the audited financial statements (continued)

(z) Financial risk management objectives and policies (continued)

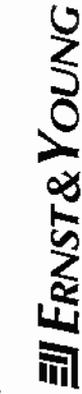
(d) Foreign exchange risk (continued)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD, and SGD exchange rates against the respective functional currencies of the Group entities, with all other variables held constant.

		Group 31.8.2010 RM
		Profit net of tax
USD/RM	- strengthened 3%	(354,000)
	- weakened 3%	354,000
SGD/RM	- strengthened 3%	(261,000)
	- weakened 3%	261,000
BND/RM	- strengthened 3%	(266,000)
	- weakened 3%	266,000

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (aa) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or procedures during the year/period ended 31 December 2009 and 31 August 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group monitors and maintains a prudent level of gearing ratio to optimise shareholder's value and to ensure compliance with covenants under debt agreements, if any. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and bank balances. Capital includes equity attributable to the owners of the parent.

	Group	
	31.12.2009	31.08.2010
	RM	RM
Loans and borrowings	24,271,039	24,380,233
Hire purchase	944,143	682,951
Trade and other payables	3,456,526	4,352,452
Less: Cash and bank balances	(11,575,975)	(8,724,208)
<i>Net debt</i>	<u>17,095,733</u>	<u>20,691,428</u>
Equity attributable to the owners of the parent	<u>15,000,000</u>	<u>75,000,000</u>
<b>Capital and net debt</b>	<u>32,095,733</u>	<u>95,691,428</u>
<b>Gearing ratio</b>	<u>53%</u>	<u>22%</u>

## 11. ACCOUNTANTS' REPORT (Con'td)



## 7.2 Notes to the audited financial statements (continued)

## (ab) Segment information

The Group operates principally in Malaysia and involved in manufacturing and marketing of stainless steel industrial products. The Group's assets and liabilities are mainly in Malaysia.

Management assesses the performance of the Group as a single operating segment. For management purposes, the financial information provided to the Chief Operating Decision Maker comprises the consolidated statements of comprehensive income and statements of financial position. All assets and liabilities and income and expenses are managed on a group basis.

The Group's operation is divided into local and export market. The local market relates to sales to customers within Malaysia. The export market relates to sales to overseas customers include United Kingdom, Singapore, Indonesia, Papua New Guinea and Brunei being the principal market segment. Sales revenue by geographical market are as follows:

	Unaudited 8 months ended 31.08.2009 RM	Audited 8 months ended 31.08.2010 RM
Revenue		
- Local	36,823,197	39,337,533
- Singapore	6,711,254	5,836,080
- Indonesia	6,108,231	192,624
- United Kingdom	1,081,206	686,643
- Papua New Guinea	-	2,076,742
- Other countries	69,698	65,473
	<u>50,793,586</u>	<u>48,195,095</u>

11. ACCOUNTANTS' REPORT (Con'td)



7.2 Notes to the audited financial statements (continued)

(ab) Segment information (continued)

Entity wide disclosure

- All non-current assets of the Group are located in Malaysia

- The Group does not have any customer which accounts for 10% or more of the total revenue.

(ac) Comparatives

Certain comparatives have been reclassified to conform to the latest financial period's presentation.