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**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE**

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A copy of this Prospectus has been lodged with CCM and registered by the SC who takes no responsibility for its contents.

**The approval of the SC shall not be taken to indicate that the SC recommends the Offer For Sale and Public Issue, and that investors should rely on their own evaluation to assess the merits and risks of the Offer For Sale and Public Issue.**

Application will be made to the KLSE within three (3) market days of the issuance of this Prospectus for admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of APPI on the Second Board of the KLSE. These Shares will be admitted to the Official List on the Second Board of the KLSE and official quotation will commence upon receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptance of applications for the Offer For Sale and Public Issue Shares will be conditional upon permission being granted by the KLSE to deal in and for the quotation of the entire enlarged issued and fully paid-up Shares of APPI on the Second Board of the KLSE. Accordingly, monies paid in respect of any application accepted from the Offer For Sale and Public Issue will be returned in full without interest if the said permission for listing is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC) provided that the Company is notified by or on behalf of the KLSE within the aforesaid timeframe. Admission to listing is not being sought on any other stock exchange.

**Pursuant to Section 14 (1) of the Securities Industry (Central Depositories) Act, 1991, KLSE has prescribed the ordinary shares of the Company as securities, which are required to be deposited into the CDS. In consequence thereof, the shares issued/offered through this Prospectus will be deposited directly with the MCD and dealings in these shares will be carried out in accordance with the Securities Industry (Central Depositories) Act 1991 and the Rules of the MCD.**

In the case of an applicant by way of Application Form, an applicant should state his CDS Account number in the space provided in the Application Form if he presently has such an account. Where an applicant does not presently have a CDS Account, he should state in the Applicant Form his preferred ADA Code. Where an applicant already has a CDS Account, he should not complete the preferred ADA Code. In the case of an applicant by way of Electronic Share Application, only an applicant who is an individual and has a CDS Account can make an Electronic Share Application and the applicant shall furnish his CDS Account number to the Participating Financial Institution by way of keying his CDS Account number if the instructions on the ATM screen at which he enters his Electronic Share Application requires him to do so. A corporation or institution cannot apply for the IPO Shares by way of Electronic Share Application.

The KLSE assumes no responsibility for the correctness of any statements made or opinions or report expressed in this Prospectus. Admission to the Official List of the Second Board of the KLSE is not to be taken as an indication of the merits of the Company or of its Shares. No person is authorised to give any information or to make any representation not contained herein in connection with the Public Listing and if given or made, such information or representation must not be relied upon as having been authorised by APPI. Neither the delivery of this Prospectus nor any Offer For Sale/ Public Issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of APPI since the date hereof.

The distribution of this Prospectus and the making of the Offer For Sale and Public Issue in certain other jurisdictions outside Malaysia may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue Shares or to buy any Offer For Sale Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

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

## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

### 2.1 Timing of Events

The indicative timing of events leading to the listing of and quotation for the entire issued and paid-up share capital of APPI on the Second Board of the KLSE is set out below:-

Events	Tentative Date
Opening of application list for the Public Issue/ and Offer for Sale of Shares	27 June 2003
Closing of application list for the Public Issue/ and Offer for Sale of Shares	10 July 2003
Balloting of Applications	14 July 2003
Listing of the Company's entire issued and paid-up share capital on the Second Board of the KLSE	06 August 2003

This timetable is tentative and is subject to changes, which may be necessary to facilitate implementation procedures. The application list for the issue shares will close at the date as stated above or later date as the Directors and/or Promoters of APPI together with the Managing Underwriter in their absolute discretion may decide. Should there be an extension of the closing date, the date of Listing will be extended.

### 2.2 Share Capital

	<b>RM</b>
<b>Authorised</b>	
100,000,000 ordinary shares of RM0.50 each	<u>50,000,000</u>
<b>Issued and fully paid up</b>	
Existing 75,550,000 Shares	37,775,000
<b>To be issued pursuant to the Public Issue</b>	
4,450,000 Shares	2,225,000
	<u>40,000,000</u>
<b>To be offered for sale pursuant to the Offer For Sale</b>	
8,800,000 Shares	4,400,000
<b>Public Issue/ Offer For Sale price per Share</b>	0.60

There is only one class of shares in the Company, namely ordinary shares of RM0.50 each, all of which rank pari passu with one another. The Offer For Sale and Public Issue Shares to be issued pursuant to this Prospectus will rank pari passu in all respect with the existing Shares of the Company including voting rights and rights to all dividends that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of ordinary shares in the Company shall, in proportion to the amount paid up on the shares held by them, be entitled to share the whole of the profits paid out by the Company as dividends and other distributions and in respect of the whole of any surplus in the event of the liquidation of the Company, such surplus shall be distributed amongst the members in proportion to the capital

## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

paid-up at the commencement of the liquidation, in accordance with its Articles of Association.

Each shareholder shall be entitled to vote at any general meeting of the Company, in person or by proxy or by attorney, and, on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held. A proxy may but need not be a member of the Company.

### 2.3 Basis of Arriving at the Public Issue/ Offer For Sale Price

The issue price of RM0.60 per Share was determined and agreed upon by AmMerchant Bank as Adviser and Managing Underwriter, the Offerors and APPI after taking into account, inter-alia the following: -

- i) the forecast net PE multiple of 6.57 times based on the forecast consolidated net EPS of 9.13 sen (based on the enlarged share capital of 80,000,000 Shares) for the financial year ending 31 December 2003 and the Public Issue/ Offer For Sale price of RM0.60 per Share;
- ii) the forecast gross dividend yield of 5% for financial year ending 31 December 2003;
- iii) the future plans and prospects of the APPI Group as outlined in Section 4.6 of this Prospectus; and
- iv) the proforma consolidated NTA per Share of APPI before Public Issue and after deducting RM1.8 million as at 31 December 2002 of RM0.66. The Public Issue/ Offer For Sale price of RM0.60 per Share represents a discount of RM0.06 or 9.09% to the proforma consolidated NTA per Share.

The Directors of the Group and AmMerchant Bank are of the opinion that the Public Issue/ Offer For Sale price is fair and reasonable after careful consideration of the abovementioned factors.

However, shareholders should also note that the market price of APPI shares upon listing on the KLSE are subject to the vagaries of the market forces and other uncertainties which may affect the price of APPI shares being traded.

### 2.4 Details of the Rights Issue, Public Issue and Offer For Sale

The Rights Issue of 3,750,950 new ordinary shares of RM0.50 each at an issue price of RM0.50 are subscribed by the shareholders of APPI upon the completion of the Acquisitions of APP, AE, APM, APC and OW. The rights shares rank pari passu in all respects with the existing ordinary shares of APPI including voting rights and the rights to dividends that may be declared subsequent to the completion of the Offer For Sale and Public Issue.

The Public Issue of 4,450,000 new ordinary shares of RM0.50 each at an issue price of RM0.60 per Share, and the Offer for Sale of 8,800,000 ordinary shares of RM0.50 each at an offer price of RM0.60 per Share, are payable in full on application and shall be subject to the terms and conditions of this Prospectus.

The 13,250,000 Shares arising from the Offer For Sale and Public Issue will be allocated in the following manner:-

## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

- (i) 2,550,000 Shares representing 3.19% of the enlarged share capital will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputra individuals, companies, societies, co-operatives and institutions;
- (ii) 4,000,000 Shares representing 5% of the enlarged share capital have been reserved for eligible employees, Directors and business associates of the APPI Group;
- (iii) 1,700,000 Shares representing 2.12% of the enlarged share capital will be placed out to the public investors by the Placement Agent; and
- (iv) 5,000,000 Shares representing 6.25% of the enlarged share capital have been reserved for Bumiputra investors approved by MITI.

The Shares in respect of paragraph (i) and (ii) are fully underwritten at an underwriting commission of 2% of the Public Issue/Offer For Sale price of RM0.60 per Share. Any Shares in respect of paragraph (ii) not subscribed for by the eligible employees, Directors, and business associates of the APPI Group will be made available for application by the Malaysian public. The Shares in respect of paragraph (iii) and (iv) are not underwritten. The Placement Agent has received irrevocable undertaking from the identified placees to take up the shares under (iii) above available for application. Any shares under (i) above which are not taken up will be made available for application to the placees under the private placement if private placement is oversubscribed and vice versa.

### 2.5 Purposes of the Offer For Sale and Public Issue

The purposes of the proposed floatation of APPI on the Second Board of the KLSE are as follows:-

- (i) The listing of APPI Shares on the Second Board of the KLSE is expected to further enhance the Group's corporate reputation and image of the Group and will help to expand its customer base both in Malaysia and overseas;
- (ii) To provide an opportunity for eligible employees, Directors and business associates of the APPI Group to participate in the equity and continuing growth of the APPI Group;
- (iii) To enable the APPI Group to gain access to the capital markets for cost effective funds for its future expansion and growth;
- (iv) To obtain a listing of and quotation for APPI's entire issued and paid-up share capital on the Second Board of the KLSE; and
- (v) To part finance its expansion as proceeds to be raised from the Public Issue will be utilised towards re-financing the Group's borrowings as well as for future expansions.

### 2.6 Proceeds of the Public Issue, Offer For Sale and Their Utilisation

The Offer for Sale will raise gross proceeds of RM5,280,000. This amount shall accrue to the Offerors and no part of the proceeds is receivable by APPI. The Offerors shall bear all expenses, such as, underwriting commission, placement fees, management fees, brokerage, registration and share transfer fee relating to the Offer For Sale Shares.

All proceeds of the Public Issue after deducting the relevant listing expenses will

**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)**

accrue to APPI. The estimated total gross proceeds of the Rights Issue and Public Issue are approximately RM4.5 million. APPI will bear all other expenses incidental to the listing of and quotation for APPI Shares on the Second Board of the KLSE which include underwriting commission, brokerage, registration fee, professional fees, SC fees, advertising, listing expenses and other fees the aggregate of which is estimated to be approximately RM1.8 million. The proceeds from the Rights Issue and Public Issue of will be utilised as follows:-

	Note	Total Proceeds RM'000	Within six (6) months * RM'000	Within eighteen (18) months * RM'000
Repayment of bank borrowings	(i)	642	642	-
Capital expenditure	(ii)	2,103	1,277	826
Finance estimated listing expenses	(iii)	1,800	1,800	-
<b>Total proceeds</b>		<b>4,545</b>	<b>3,719</b>	<b>826</b>

\* from the date of listing of APPI's Shares on the KLSE

There is no minimum subscription to be raised from the Public Issue as the Public Issue Shares are fully underwritten. Brief details on the utilisation of proceeds are as follows:-

**(i) Repayment of bank borrowings**

Approximately RM0.6 million from the proceeds will be set aside to repay term loans undertaken by the Group. Details of the term loans to be repaid are as follows: -

Company	Financial Institution	Type of facility	Interest %	Amount outstanding as at 31 December 2001 RM	Amount outstanding as at 31 May 2003 RM
APP	RHB Bank Bhd	Term loan	BLR + 1.5	78,422	-
APM	Southern Bank Bhd	Term loan	BLR + 2.0	47,325	-
AE	RHB Bank Bhd	Term loan	BLR + 2.0	143,722	-
OW	Maybank Berhad (formerly known as Pacific Bank Bhd)	Term loan	BLR + 2.0	199,041	73,371
AR	Southern Bank Berhad (formerly known as Ban Hin Lee Bank Bhd)	Term loan	BLR + 2.0	88,323	-
LC	Southern Bank Berhad (formerly known as Ban Hin Lee Bank Bhd)	Term loan	BLR + 2.0	85,069	-
				<b>641,902</b>	<b>73,371</b>

**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)**

Of the total amount outstanding as at 31 December 2001, RM568,531 has been repaid to date in accordance to its scheduled repayment from the Group's internal generated funds. Thus, RM568,531 of the proceeds allocated for the repayment of borrowings will be used to replenish the internal generated funds of the Group.

**(ii) Capital Expenditure**

The APPI Group would utilise RM2,103,000 for its proposed expansion plans. The following set out the details for the proposed expansion plan:-

Company	Particulars	Total expected cost of investments RM'000	Proceeds from Rights Issue and Public Issue RM'000	Proceeds from internally generated funds or other sources RM'000
APPI	Building and freehold land (new corporate building)	2,000	-	2,000
	Furniture and fittings	100	50	50
	Motor vehicles	47	47	-
		<u>2,147</u>	<u>97</u>	<u>2,050</u>
APM	Building & freehold land (new home & garden centre)	1,500	826	674
AE	Purchase of new micro-kiln	100	100	-
OW	Purchase of new micro-kiln	1,080	580	500
APC	Machinery, equipment and tools	500	500	-
		<u>5,327</u>	<u>2,103</u>	<u>3,224</u>

APPI

Proposed Location	Proposed land area (sq. ft)	Estimated cost/sq. ft RM	Estimated total land cost RM	Estimated construction cost RM	Total RM	Within six (6) months RM	Within eighteen (18) months RM
Batu Penang	Ferringhi, 25,000	40	1,000,000	1,000,000	2,000,000	-	2,000,000

The new corporate office will occupy a total built-up area of approximately half (1/2) acre on the aforesaid land. The total cost of the land (inclusive of construction cost) is approximately RM2 million. The construction of the new building will commence after acquisition of land and the building is expected to be completed within three years. Once completed, the present operation located at Tanjung Bungah, Penang will be relocated to the new premises.

Prior to the printing of the Prospectus, the Company has yet to locate a suitable land at the right price. Continuous search will be conducted to find for the desired land within the stipulated time frame as disclosed above.

**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)**APM

APPI plans to establish a new Home & Garden Centre which also functions as a show room on the same land for the construction of the new corporate office. The cost of setting-up this centre is estimated to be about RM1.5 million. The RM1.5 million consist of building, decoration, furniture and fittings. The new home and garden centre expects to commence operation by year 2006. With this new centre, APPI Group anticipates APM to contribute approximate 5% to the Group's turnover.

AE

AE intends to invest in a new micro-kiln for the production of pottery products. This locally assembled micro-kiln will cost the company approximately RM0.1 million. With this new facility, AE anticipates to increase its production by approximately 20% and it will contribute approximately 5% to the Group's turnover. At present, the existing kiln (non-micro) is operating at approximately 80% capacity. The kilns currently produce approximately one to two million pieces of pottery products per annum. With the new kiln, AE is able to produce an additional of 0.2 million pieces of pottery products during the same period.

Compared with its existing kiln, these micro-kilns, which runs on palm olein, are environmentally friendly and cost efficient.

OW

The new micro kiln machine to be purchased by OW will produce approximately 0.2 million pieces of flower pots and saucers per annum, an increase in production of approximately 30%. Thus, with the new kiln, OW is expected to produce approximately 1 million pieces of flower pots and saucers per annum. With the new micro kiln in place, the Group anticipates its turnover to improve by approximately 2%.

APC

Part of the funds raised will be utilised in the upgrading and purchase of machinery, equipment and tools for the factories of APC, which will cost the company approximately RM0.5 million. The machinery, equipment and tools to be purchased are hydraulic forming machines used to form various shapes from unfired clay, clay filter machines used to filter clay into finer texture, mug making machines used to mould clay into different mug shapes and other equipment and tools mainly used for carving the flower pots. The investment is expected to improve the production capacity of APC and will improve the turnover of the Group by approximately 1%.

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**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)****(iii) Estimated listing expenses**

Details of the estimated listing expenses of RM1.8 million are as follows:

Major Cost Items	Total estimated cost (RM)
Initial Listing Fee	5,000
Annual Listing Fee	2,000
Advertising of Prospectus	50,000
Professional Fees	800,000*
Securities Commission fee	51,250
Issuing house fee	150,000
Registration of Prospectus	5,500
Printing of Prospectus and Application forms and envelopes	240,000
Underwriting commission (2 % on 6,550,000 Shares at RM0.60 per share)	78,600
Brokerage (assumed at 1 % on 2,550,000 shares at RM0.60 per share)	15,300
Miscellaneous**	402,350
<b>TOTAL</b>	<b>1,800,000</b>

\* The total amount of RM800,000 Professional Fees includes fee for Advisors, Lawyers, Auditors, Experts (if any), Valuers and others. It must be noted that the above figure is only an indicative amount.

\*\* Any unutilised amount shall be used for working capital.

The utilisation of the proceeds by the Group is expected to give a financial impact as follows:-

Forecast for Financial Year Ending 31 December 2003	Without Listing Proceeds (RM'000)	With Listing Proceeds (RM'000)
PBT	10,735	10,262
PAT	7,729	7,303
Cashflow @ 31 December 2003	171	1,318

Profits are expected to be lower after the Listing as compared to before Listing for the forecast financial year ending 31 December 2003 mainly due to additional depreciation charge arising from the revaluation of land and buildings pursuant to the Listing. However, the Group's profits will be enhanced in long term with the Listing exercise.

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**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)****2.7 Details on the Pink Forms Allocation**

A brief description on the criteria of allocation of the pink forms allocation as approved by the Board of Directors of the Company is as follow:-

Category	Number	Pink Form Allocation
Directors	3	200,000
Managers	9	551,000
Technical and Supervisory	69	1,316,000
Clerical Workers and Related Occupation	26	109,000
General and Factory Workers	251	557,000
Subcontractors	9	360,000
Suppliers	22	907,000
<b>Total</b>	<b>395</b>	<b>4,000,000</b>

The allocation of the of the pink form shares to the Directors and employees of APPI Group is generally based on seniority, position, length of service and contribution to the Company.

The details of the Directors' pink form allocation is as follows:-

Name of Directors	Pink Form Allocation
Tan Sri Dato Ir Talha bin Haji Mohamad Hashim	-
Ow Hang Sen	-
Cheah Sun Chuang	-
Leong Lin	-
Sonin @ Soin Bin Haron	-
Neoh Chin Wah	60,000
Ang Kar Boo	58,000
Lim Jong Sun	82,000
	<b>200,000</b>

**2.8 Brokerage and Underwriting Commission**

The Underwriters mentioned earlier in this Prospectus have agreed to underwrite up to 6,550,000 of the Public Issue/Offer For Sale of shares to be issued/offered to the Malaysian Public and the eligible employees, directors, and business associates of the Group. Underwriting commission is payable by APPI and the Offerors at the rate of 2% of the Public Issue/Offer For Sale price of RM0.60 per ordinary share.

Brokerage is payable by APPI and the Offerors at the rate of 1.0% of the Public Issue/ Offer For Sale price of RM0.60 per ordinary share in respect of successful applications which bear the stamp of AmMerchant Bank, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

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## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

### 2.9 Salient terms of the Underwriting Agreements

The following are some of the extract Clauses of the Underwriting Agreement dated 17 June 2003 between the Company, the Offerors and the Underwriters stating the events that may affect the Underwriting of APPI Shares:-

#### Clause 2 – Underwriting Commitment

- 2.1 **Underwriting Commitment:** In consideration of the underwriting commission to be paid by the Company and the Offerors (each in relation to and in proportion to their respective number of Underwritten Shares) to the Underwriters as stated in **Clause 10.1** and more particularly specified against each Underwriter's name in the Fourth Column of the **Second Schedule** and relying upon each of the representations, warranties and undertakings by the Company and the Offerors as set out in **Clause 3.1, Clause 3.2 and Clause 3.3** respectively hereof, the Managing Underwriter hereby agrees to act as Managing Underwriter and the Underwriters hereby agree to severally but not jointly underwrite the number of the Underwritten Shares as set out opposite each Underwriter's name in the Second Column of the **Second Schedule** upon the terms and conditions hereinafter contained.
- 2.2 **Obligations Several:** The obligation of each Underwriter is several and no Underwriters shall be responsible for any failure by any other Underwriter to meet its obligation nor shall such failure relieve the Company, or the other Underwriters of their respective obligations and further, nothing in this Agreement shall be construed as constituting or evidencing a partnership between the Underwriters or any of them.

#### Clause 3 – Warranties and Representations by the Company and the Offerors

- 3.2 **Undertakings By the Company:** In further consideration of the Underwriters agreeing at the request of the Company to underwrite the Underwritten Shares, the Company undertakes with each of the Underwriters:-
- (a) to pay all and any stamp duties and other documentary taxes or duties, including any interest and penalties resulting from the delay or omission on the part of the Company, payable in Malaysia on or in connection with, the creation, issue and allotment of the IPO Shares or the execution of this Agreement;
  - (b) to give to the Underwriters, any or all information which it may reasonably require affecting the IPO Shares, the accounts or affairs of the Company or any member of the Company and its subsidiaries;
  - (c) not to vary or publish any amendment or supplement to the Prospectus without the prior consent in writing of the Underwriters;
  - (d) to do all other things and sign or execute such documents as may be required in order to complete the offer of the IPO Shares;
  - (e) to make an application to the KLSE for permission to deal in and for the listing of and quotation for the entire issued and paid up share capital of the Company on the Second Board of the KLSE and comply with or procure its board of directors to comply with the requirements of the KLSE, SC and the CCM in connection with the IPO Shares including the lodgment and registration of the Prospectus in accordance with the Companies Act;

## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

- (f) to comply with all conditions, if any, imposed by the SC, the KLSE or any other relevant authorities in respect of the IPO and the listing of and quotation for the IPO Shares on the Second Board of the KLSE;
- (g) to take all other actions to comply with all legal and other requirements necessary to ensure that the IPO will not infringe any existing laws or the terms of any consents, approvals or authorisations;
- (h) not to take any action to distribute the Prospectus or any relevant application forms for the IPO Shares or other material in any country or jurisdiction other than Malaysia;
- (i) to apply the proceeds of the IPO Shares solely for the purposes noted in the letters of approval from the SC dated 25 October 2002;
- (j) to deliver to the Underwriters certified copies of all relevant board of directors' and shareholders' resolutions relating to the IPO and this Agreement as the Underwriters may reasonably require;
- (k) to use its best endeavours to procure the fulfillment of all the conditions precedent in **Clause 4.1**;
- (l) to ensure that subsequent to the Closing Date, successful applicants for the IPO Shares are allotted the successful portion of their application for the IPO Shares within the period prescribed under the Rules of the Central Depository or any other applicable laws, legislation or rules which includes any amendments thereafter; and
- (m) to use its best endeavours to obtain and maintain the listing of the IPO Shares and the entire issued and paid up share capital of the Company on the Second Board of the KLSE.

3.3 **Warranties & Representations By the Offerors:** In consideration of the Underwriters agreeing at the request of the Offerors to underwrite the Underwritten Shares under the Offer For Sale, the Offerors hereby jointly and severally warrant, represent and undertake to the Underwriters as follows:-

- (a) **Malaysian Citizen:** the Offerors are citizens of Malaysia and have attained full age;
- (b) **Non-violation:** neither the execution and delivery of this Agreement nor the performance of any of the transactions contemplated therein do or will contravene or constitute a default under, or cause to be exceeded any limitation on the Offerors imposed by or contained in, (i) any law, regulation, judgment, ordinance by which the Offerors or any of their assets are bound or affected or (ii) any agreement to which any of the Offerors is a party or by which their assets are bound;
- (c) **Consents:** no authorisation, approval, consent, licence, exemption, registration, recording, filing or notarisation and no payment of any duty or tax and no other action whatsoever which has been duly and unconditionally obtained, made or taken is necessary or desirable to ensure the validity, enforceability or priority of the liabilities and obligations of the Offerors or the rights of the Underwriters under this Agreement, other than payment of stamp duty in Malaysia;
- (d) **No Security:** none of the Offerors are a party to, nor any of the Offer

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Shares bound by, any order, agreement or instrument under which the Offerors are, or in certain events may be, required to create, assume or permit to arise any security interest over the Offer Shares;

- (e) **Ownership:** the Offerors are the beneficial owner of the Offer Shares in their respective portions as set out in the Third Column of the First Schedule hereto; and
- (f) **Bankruptcy Proceedings:** there are no bankruptcy proceedings pending or threatened against any of the Offerors.
- 3.4 **Basis:** The agreement of the Underwriters to underwrite the Underwritten Shares is entered into on the basis of the aforesaid representations, warranties and undertakings being true and accurate in all material respects up to and including listing of the Company. Without prejudice to the other rights and remedies of the Underwriters, the Company and the Offerors undertake with the Underwriters that they shall severally (but not jointly) hold each of the Underwriters harmless and keep each of them fully and effectually indemnified against any losses, claims, damages or liabilities to which the Underwriters may become subject under any statute, at common law or otherwise, and reimbursing each of the Underwriters for any legal or other expenses (including the cost of any investigation and preparation) reasonably incurred by it in disputing or defending any claim or action or other proceeding in connection with any litigation, whether or not resulting in any liability, insofar as such losses, claims, damages, liabilities or litigation arising out of, or are based upon, any untrue statement or alleged untrue statement or a material fact contained in the Prospectus or any omission or alleged omission to state therein a material fact required or necessary to be stated therein or to make the statements therein misleading or any misrepresentation or breach or alleged breach of any of the aforesaid representation, warranties or undertakings by the Company and the Offerors and such indemnity shall extend to include all costs, charges and expenses which the Underwriters may reasonably pay or incur in disputing or defending any claim or action or other proceeding in respect of which indemnity may be sought against the Company and the Offerors.
- 3.5 **Rights & Remedies:** The rights and remedies conferred upon the Underwriters by the aforesaid representations, warranties, agreements and indemnities shall continue in full force and effect for a period of six (6) months from the date on which the Shares of the Company are listed on the KLSE notwithstanding completion of the issue and application of the IPO and notwithstanding any investigations or due diligence by or on behalf of the Underwriters.
- 3.6 **Breaches:** In the event of any breach of the warranties or representations set out herein or failure on the part of the Company and the Offerors to perform any of the obligations herein contained or any change rendering any of the said warranties or representations inaccurate in any respect or if any material information shall have been withheld and coming to the notice of the Underwriters prior to the Closing Date or there shall have been prior to the Closing Date such change in national or international monetary, financial, political or economic conditions or exchange control legislation or regulations or currency exchange rates or occurrence as a result of an act or acts of god which would materially prejudice the success of the offering of the Underwritten Shares and their distribution or sale (whether in the primary market or in respect of dealings in the secondary market) or in the event of national disorder, outbreak of war or the declaration of a state of national emergency, each of the Underwriters shall be entitled (but not bound) by notice to the Managing Underwriter to elect to treat such breach, failure or change as releasing or discharging it from its obligations hereunder

## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

PROVIDED THAT the Company and the Offerors shall remain liable for the payment of costs and expenses (each in proportion to their respective Underwritten Shares) referred to in Clause 13 hereof which are incurred prior to or in connection with such release and PROVIDED FURTHER THAT failure to make such election aforesaid shall not prejudice the right of any Underwriter to claim for any loss or damage suffered as a result of such breach, failure or charge and to treat any further or other breach, failure or change as releasing and discharging such Underwriter from its obligations as aforesaid.

### Clause 5 – Undersubscription of the Underwritten Shares

- 5.1 **Undersubscription of the Underwritten Shares:** If on the Closing Date or such later date as the directors of the Company may determine in agreement with the Managing Underwriter, the whole of the Underwritten Shares have been validly taken up in full, then no allotment is to be made to the Underwriters, but, if on such date, the Underwritten Shares shall not have been validly taken up in full, then the Underwriters shall be bound, subject to the fulfillment of the conditions of **Clauses 4.1 and 4.2** to take up and apply for so much of the Underwritten Shares not taken up in accordance with the proportions of their respective commitments as stipulated in the Second Column of the **Second Schedule** under the terms and subject to the conditions of this Agreement subject always to rounding up by the Managing Underwriter in the Rounding Up Notice referred to in Clause 6.2 (if any).

### Clause 8 – Underwriters' Liabilities

- 8.1 **Pro-rated Obligations:** The liabilities and obligations of the Underwriters pursuant to the provisions of **Clauses 2.1, 5.1 and 7.1** shall be to take up and apply for or procure subscriptions of the Underwritten Shares not subscribed or taken up by the Closing Date, according to each Underwriter's respective commitment stipulated in the Second Column of the **Second Schedule** in accordance with the percentages stated in the Third Column of the **Second Schedule** and as may be stipulated in the Underwriting Notice sent to all the Underwriters.
- 8.2 **Ceasing of Obligation:** In the event by or on the Closing Date acceptances shall have been validly received by the Issuing House (as defined in the Prospectus) for all the Underwritten Shares then the underwriting obligations of the Underwriters hereunder shall cease.

### Clause 9 – Prospectus

- 9.1 **Prospectus:** The applications of the Underwriters shall be on terms and conditions of the Prospectus in the form registered with the SC and lodged with the CCM notwithstanding any variation between the Prospectus so registered and lodged and the draft Prospectus annexed hereto as **Annexure**, PROVIDED THAT no material variation shall be made in the Prospectus without the written consent of all the Underwriters with regard to the following matters, namely:-
- (a) the authorised and issued share capital of the Company;
  - (b) the number of IPO Shares comprised in the IPO (in particular the Underwritten Shares), the par value of the Shares and the IPO Price;
  - (c) the constitution of the board of directors of the Company;
  - (d) the Closing Date;

**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)**

- (e) the information or statements relating to material litigation affecting the Company and/or its subsidiaries;
- (f) the risk factors which may affect the Company and/or its subsidiaries;
- (g) the information or statements relating to the contingent liabilities affecting the Company and/or its subsidiaries;
- (h) the business viability, competitive advantages, the business history and future plans of the Company and/or its subsidiaries;
- (i) the intention to apply to the KLSE for permission to deal in and for the listing of and quotation for the entire issued and paid up share capital of the Company inclusive of the IPO Shares on the Second Board of the KLSE;
- (j) the forecast profit before and after taxation for the financial year ending 31 December 2003; and
- (k) the forecast dividend for the financial year ending 31 December 2003.

For the purpose of Section 52 of the SCA, the said application and any acceptance thereof shall be deemed to be made pursuant to the Prospectus.

**2.10 Moratorium on Shares**

The SC, in approving the flotation of APPI, has imposed a moratorium on the disposal of Shares held by Ow Hang Sen, Cheah Sun Chuang and Shaharudin bin Yacub, the substantial shareholders of APPI.

Accordingly, Ow Hang Sen, Cheah Sun Chuang and Shaharudin bin Yacub will not be allowed to sell, transfer or assign their shares in APPI amounting to 36,000,000 ordinary shares of RM0.50 each representing 45% of the total issued and paid up share capital within one (1) year from the date of admission of APPI on the Official List of Second Board of the KLSE. Thereafter, they are permitted to sell, transfer or assign their shares in APPI.

The shareholdings of Ow Hang Sen, Cheah Sun Chuang and Shaharudin bin Yacub after the Offer For Sale and Public Issue, which are under moratorium as imposed by the SC are set out below:-

	Shareholding after Offer For Sale and Public Issue	% of the enlarged issued and paid-up share capital	No of ordinary shares under moratorium	% of the enlarged issued and paid-up share capital
Ow Hang Sen	17,940,260	22.43	17,940,260	22.43
Cheah Sun Chuang	15,691,813	19.61	15,691,813	19.61
Shaharudin bin Yacub	7,845,885	9.81	2,367,927	2.96
	41,477,958	51.85	36,000,000	45.00

## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

The restriction, which is fully accepted by Ow Hang Sen, Cheah Sun Chuang and Shaharudin bin Yacub, is endorsed specifically on the share certificate representing their shareholdings that are under moratorium to ensure that APPI's registrars do not register any transfer not in compliance with the restriction imposed by the SC.

The remarks to be endorsed on the share certificate of the shares placed under moratorium are as follows:-

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

### 2.11 Approvals from Authorities

The Acquisitions, Rights Issue, Offer For Sale, Public Issue and the Listing were approved by the following authorities as follows:-

Authorities		Date
SC	<input type="checkbox"/>	<i>25 October 2002, 13 May 2003 and 26 May 2003</i>
MITI	<input type="checkbox"/>	<i>30 August 2002, 25 September 2002, 16 June 2003 and 18 June 2003</i>
FIC	<input type="checkbox"/>	<i>30 August 2002</i>

FIC has approved the Proposed Listing without any condition imposed.

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## 2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)

The details of the conditions of the authorities' approvals and status of compliance are set out as below:-

Main Conditions Imposed By SC via its letter dated 25 October 2002		Status																				
1.	The total gross proceeds of the Public Issue and Rights Issue will be utilised in the following manner:-	Will be complied as stated under section 2.6																				
<table border="1"> <thead> <tr> <th><i>Utilisation</i></th> <th><i>RM'000</i></th> </tr> </thead> <tbody> <tr> <td>Repayment of bank borrowings</td> <td>642</td> </tr> <tr> <td>Capital expenditure</td> <td>2,103</td> </tr> <tr> <td>Finance estimated listing expenses</td> <td>1,800</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black;">4,545</td> </tr> </tbody> </table>		<i>Utilisation</i>	<i>RM'000</i>	Repayment of bank borrowings	642	Capital expenditure	2,103	Finance estimated listing expenses	1,800		4,545											
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Capital expenditure	2,103																					
Finance estimated listing expenses	1,800																					
	4,545																					
The conditions to be complied for the utilisation of proceeds are as follows:-																						
(i)	SC approval must be obtained for any changes to the original utilisation of proceeds if the utilisation involves any utilisation other than for the core business of APPI Group;	Will be complied																				
(ii)	The approval of the shareholders must be obtained for any changes of 25% or above for the said utilisation of proceeds. If the change is less than 25%, the appropriate disclosure must be made to the shareholders of APPI;	Will be complied																				
(iii)	Any extension of time from the timing determined by APPI for the utilisation of proceeds must be approved by a final resolution of the Board of Directors of APPI and full disclosure must be made to KLSE; and	Will be complied																				
(iv)	The appropriate disclosure on the status of the proceeds must be made on the annual reports and the quarterly reports of APPI until the utilisation is completed.	Will be complied																				
2.	Moratorium is to be imposed on 36,000,000 ordinary shares of APPI held by the Promoters and the substantial shareholders of APPI, representing 45% of the enlarged issued and paid up share capital, where he is not allowed to sell, transfer or assign for a period of one (1) year from the date of listing of APPI on the KLSE. Thereafter, they are allowed to sell, transfer or assign their Shares in APPI. Details are as follows:-	Will be complied, the restriction is endorsed on the share certificates as per section 2.10																				
<table border="1"> <thead> <tr> <th><i>Promoters/ shareholders</i></th> <th><i>substantial</i></th> <th><i>Number of Shares</i></th> <th><i>% of enlarged share capital</i></th> </tr> </thead> <tbody> <tr> <td>Ow Hang Sen</td> <td></td> <td>17,940,260</td> <td>22.43</td> </tr> <tr> <td>Cheah Sun Chuang</td> <td></td> <td>15,691,813</td> <td>19.61</td> </tr> <tr> <td>Shaharudin bin Yacub</td> <td></td> <td>2,367,927</td> <td>2.96</td> </tr> <tr> <td></td> <td></td> <td style="border-top: 1px solid black;">36,000,000</td> <td style="border-top: 1px solid black;">45.00</td> </tr> </tbody> </table>			<i>Promoters/ shareholders</i>	<i>substantial</i>	<i>Number of Shares</i>	<i>% of enlarged share capital</i>	Ow Hang Sen		17,940,260	22.43	Cheah Sun Chuang		15,691,813	19.61	Shaharudin bin Yacub		2,367,927	2.96			36,000,000	45.00
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**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)**

<b>Main Conditions Imposed By SC via its letter dated 25 October 2002</b>		<b>Status</b>
3.	Payment of the special dividends by APP to its existing shareholders from profits for financial year ended 31 December 2002 is subject to the availability of the cash from its internal generated funds, estimated profits and cash flow position for financial year ended 31 December 2002 being met and the payment will not detrimental to the cash flow forecast and projections as furnished to the SC.	APP has proposed a special dividend of RM5,005,007.70 to its shareholders from its profits for financial year ended 31 December 2002. The amount was paid on 17 March 2003.
4.	APPI should have a management succession plan to ensure a continued management of the Company and to disclose this in the Prospectus.	Complied. Appropriate disclosure has been made in Section 5.5 (v) of this Prospectus
5.	APPI to disclose in the Prospectus regarding the adequacy of the clay supplies, its main raw material.	Complied. Appropriate disclosure has been made in Section 3 (iii) of this Prospectus
6.	APPI to fulfil the following conditions on APPI Group's properties prior to the issuance of the Prospectus:-	
	<b>Location of the Conditions imposed properties</b>	
1.	Lot 999, Bandar Tanjong Bungah, Daerah Timur Laut, Pulau Pinang	Approval from the relevant authorities for the said property to be used as office buildings
		APPI has moved its head office to Lot 906 and Lot 907, Jalan Jalong, 31100 Sungai Siput (U), Perak Darul Ridzuan. The new premise is a industrial property. Lot 999 will be used as guest house to host the Group's potential and regular customers who frequently visit the Group's operation. APPI will seek prior approval of the local authority should this property is intended to use other than for residential purpose.
2.	Lot 906, 907, 929, 947 and 948, Mukim Sungai Siput, Daerah Kuala Kangsar, Perak	Rectification to the factory building extensions not approved by the relevant authorities
		APPI is currently awaiting approval from the relevant authorities for rectifications to building extensions on Lot 906, 907, 947 and 948. Please refer to further conditions imposed by SC in its approval letter dated 26 May 2003 as detailed in the table below. Lot 929 is a vacant land
3.	PT 11515, Mukim Asam Kumbang, Daerah Larut and Matang, Perak	Rectification to the factory building extensions not approved by the relevant authorities and the ownership transfer of the property to MC is obtained
		APPI is currently awaiting approval from the relevant authorities for rectifications to building extensions on PT 11515. Please refer to further conditions imposed by SC in its approval letter dated 26 May 2003 as detailed in the table below.
		The ownership of the property has been transferred to MC.

**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)**

<b>Main Conditions Imposed By SC via its letter dated 25 October 2002</b>		<b>Status</b>
4.	PT 11516, Mukim Asam Kumbang, Daerah Larut and Matang, Perak	Rectification to the factory building extensions not approved by the relevant authorities and the ownership transfer of the property to OW is obtained
		APPI is currently awaiting approval from the relevant authorities for rectifications to building extensions on PT 11516. Please refer to further conditions imposed by SC in its approval letter dated 26 May 2003 as detailed in the table below.  The ownership of the property has been transferred to OW.
5.	PT 11513, Mukim Asam Kumbang, Daerah Larut and Matang, Perak	Rectification to the factory building extensions not approved by the relevant authorities and the ownership transfer of the property to AR is obtained
6.	PT 11514, Mukim Asam Kumbang, Dearah Larut and Matang, Perak	Rectification to the factory building extensions not approved by the relevant authorities and the ownership transfer of the property to LC is obtained
		APPI has transferred the ownerships of the properties to AR and LC respectively. As the factory/ building extensions are erected on both PT 11513 and PT 11514, APPI has made application to the local authorities to transfer both properties to OW in order to obtain approval for the building extensions. APPI is currently awaiting for approval. Please refer to further conditions imposed by SC in its approval letter dated 26 May 2003 as detailed in the table below.
7.	Lot 12268, 12270 – 12272 and 12242 – 12246, Mukim Tanjung Karang, Daerah Sabak Bernam, Selangor	Rectification to the factory building extensions not approved by the relevant authorities and the certificates of occupancy are obtained for factories
		Complied (APPI has obtained the certificate of occupancy for the canteen and office block, warehouse cum factory. APPI has obtained the local authorities' approval for the extensions on the warehouse cum factory.)
7.	APPI is required to fully complied with other requirements in relation to the listing of company as stated in the Policies and Guidelines on Issue/Offer of Securities	
		Complied

<b>Main Conditions Imposed By SC via its letter dated 26 May 2003</b>		<b>Status</b>
1.	APPI to furnish to the SC, letter of undertaking to undertake to follow up closely to obtain approval from the relevant authorities for the Group's building extensions within six (6) months from 26 May 2003.	Will be complied
2.	APPI to furnish monthly update to the SC on the status of the all the above application	Will be complied

**2. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (Cont'd)**

<b>Main Conditions Imposed By MITI via its letter dated 30 August 2002</b>		<b>Status</b>
1.	MITI will decide on the allocation of 5,000,000 special issue of Shares upon the approval being obtained from the SC on the listing proposal	Complied
2.	APPI is to obtain approvals from the FIC and SC	Complied

<b>Main Conditions Imposed By MITI via its letter dated 16 June 2003</b>		<b>Status</b>
1.	604,023 Shares allocated to Encik Fadzlullah Shuhaimi bin Salleh is subject to the condition that 30% of the Shares are allowed for sale within within 3 months after APPI is listed and approval from the MITI must be obtained prior to any sale of the remaining 70% which will be in stages	Will be complied. Encik Fadzlullah Shuhaimi bin Salleh has provided undertaking letter to MITI and will comply with this condition

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### 3. THE RISKS FACTORS

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Applicants for the Offer For Sale and Public Issue should carefully consider all information contained in this Prospectus including but not limited to the general and specific risks of the following investment considerations:-

i) No Prior Market for APPI's Shares

Prior to this Offer For Sale and Public Issue, there has been no public market for APPI Shares. There can be no assurance that an active market for APPI Shares will develop upon its listing on the Second Board of the KLSE or, if developed, that such a market will be sustained. The issue price of RM0.60 for the Offer For Sale and Public Issue Shares has been determined after taking into consideration a number of factors, including but not limited to, the Company's financial and operating history and condition, its prospects and the prospects of the industry in which the Company operates, the management of the Company, the market prices for shares of companies engaged in business similar to that of the Company and the prevailing market conditions at the time the application for APPI listing was submitted to the SC. There can be no assurance that the issue price will correspond to the price at which APPI's Shares will trade on the Second Board of the KLSE upon or subsequent to its listing or that an active market for APPI's Shares will develop and continue to develop upon or subsequent to its listing.

ii) Competitive Conditions

The APPI Group is exposed to local and overseas competitions with lesser impact on the local market as the Group supplies a major portion of its products to overseas market.

▪ *Local*

The pottery industry in Malaysia is relatively untapped. The local manufacturers of pottery are monopolised by many local manufacturers and a few major players. APPI do not foresee serious competition from these local manufacturers. Due to the uniqueness of APPI's position as one of Malaysia's leading decorative lawn and garden ceramic manufacturers, the Group finds itself in a different class from others, with no significant local competitors in the same category.

To maintain this position, APPI intends to leverage on its long-standing relationships with existing customers that has produced a strong rapport and bond between them. Their extensive customer network places the Group in a stronger competitive position compared to other local Malaysian players in the L&G ceramic industry. However, there is no assurance that the local competitors will not catch up and compete directly with the Group.

▪ *Overseas*

Manufacturers at global level pose, to a certain extent, some competition to the Group. The manufacturers are required to focus on product's quality, reliable delivery and established brand names. APPI faces direct competition from the long established companies that have taken years to establish their businesses and market reputation. In addition, high investment costs in technology and automation equipments are usually required. Presently the Group competes directly with manufacturers from Italy, China and Vietnam. However, due to high quality of the clay available in Malaysia, which is winter resistant, these manufacturers may not be a significant threat to the Group. The Group has less than 1% of the world market share and thus potential growth is tremendous.

### 3. THE RISKS FACTORS (Cont'd)

There is an increasing threat from neighbouring countries like Vietnam and Cambodia that potentially could compete with APPI. However, their product ranges differ from APPI's which include fine-art pottery, hand-made flower pots and hand made garden accessories (raw material consists of special red clay) and pottery products. APPI attempts to lower its production cost by outsourcing certain products to producers in lower production cost countries, in particular in raw materials and labour, to compete more efficiently with its competitors. Currently, APCZ is one of the sub-contractors supplying L&G products to the Group.

APPI is distinguished from the majority of its global competitors. It operates as a well integrated and diversified pottery manufacturer and distributor with products ranging from flowers pots, decorative products for the L&G, kitchenware and other decorative products. In addition, the Group maintains and improves on the quality of its products and provide good customer services to all its customers in order to sustain its market share.

In its endeavour to achieve market share and leadership, the Group strives to provide more innovative and affordable pottery products to the market. Nonetheless, there is no assurance that the Group will be able to maintain its existing market share in the future and there is no assurance that the Group will not be affected by the competitive strategy adopted by other players in the industry.

#### iii) Business Risks

The APPI Group is subject to certain risks inherent in the pottery industry. The APPI Group is subject to risks of general downturn in the global economies, competitions among existing players in the industry, increased competition by new entrants, introduction of new product substitutes in the market as well as the environmental legislation that may impose stringent requirements on the extraction of clay.

The other business risk may include raw material and labour shortages as well as the changes in credit conditions which may lead to additional costs. While it is currently possible to pass a substantial portion of the additional costs incurred by the group to its customers, there is no warranty that this situation will remain in the future.

Some of the factors that may have material effect on the Group are:-

- *Substitute products*

As the products of the Group are principally consist of flower pots and decorative items made of clay, competition is also faced in the form of substitutes such as plastics and terracotta, which may serve the same purpose. However, material such as plastic is not popular as it is not biodegradable and may be harmful to the environment. In addition, glazed potteries may be preferred over terracotta potteries as they are more durable and winter-resistant. Hence, the Promoters are in the opinion that there is no perfect and immediate substitute to ceramic products produced by APPI Group.

- *Supply of ceramic potteries*

In order to meet its' clients' demand during the peak season as well as to keep production cost low, the Group sub-contract some of their orders to a

### 3. THE RISKS FACTORS (Cont'd)

handful of established sub-contractors. The Group maintains good working relationship with these suppliers at all times.

However, there is no assurance that the present good relationships with sub-contractors can be maintained in the future.

- *Supply of clay and other materials*

While the Group does not have its own land for extracting clay for its production need, the Group has nevertheless obtain its clay supply from its regular suppliers. Most of APPI's suppliers of raw materials are local suppliers. The Group also purchases other raw materials such as minerals and colouring for its production process. APPI's major suppliers are set out under Section 4.8 of this Prospectus. However, APPI does not rely on a single supplier for its raw materials.

Even though the current supply of clay is abundance in Perak, Malaysia, APPI cannot guarantee that there will not be any new legislation that may impose restriction on the extration of clay. In addition, the non-governmental organisations may raise their concerns on the effect of the pottery industry and extraction of clay will have on the environment. The directors of APPI believe that the clay deposits in the Perak State will at least meet the industry demand for another hundred (100) years.

iv) Innovation, Product Differentiation and Quality

The Group strives to distinguish its products from its competitors. The Group develops new products and design, which they anticipate will meet the next coming season's trend. The Group's marketing teams are well established with many years of experience. They travel frequently to international trade shows in order to gather information on the latest trend in order to work closely with the product development team. This will ensure that the Group's products are up to date to cater for a variety of tastes in the European, Asian and the United States markets. In addition, the Group's potteries are systematically packed in accordance to the Group's customers' specifications, tagged and labelled accordingly before shipping to them, in order to provide more value-added features to its customers.

However, there is no assurance that the competitors will not catch up and compete with them.

v) Control by Substantial Shareholders

Following the Offer For Sale and Public Issue, Mr Ow Hang Sen and Mr Cheah Sun Chuang would own 22.43% and 19.61% respectively, of the Company's issued and paid-up share capital. As a result, they would be able to effectively control the outcome of certain matters requiring the vote of the Company's shareholders, unless they are required to abstain from voting by law and / or the relevant authorities.

vi) Seasonality

In the household sector, the export demands for household products, especially garden products are seasonal in nature. The demands for household products will peak during festivities, for instance Christmas, while the peak demand for L&G products usually occur during spring. The planting season usually starts in a very high-spirited manner after long hibernation during the winter months for countries with four seasons. Thus, the demands for L&G products will pick up during this period. The local demand (whilst miniscule compared to export), also registers

### 3. THE RISKS FACTORS (Cont'd)

peaks during the festive seasons for decorative items, while L&G products are purchased all year round.

Given the seasonal nature of the non-structural household products industry, APPI has been maintaining a good balance of customers from northern and southern hemisphere, product mix between indoor and outdoor products and a range of L&G as well as decorative household products that compliment each other. However, there is no assurance that any change in the external factors will not have any adverse effect on the Group's business.

vii) Dependence on certain suppliers or customers

▪ *Dependency on particular suppliers*

APPI has 2 major types of suppliers; the first supplies raw materials as input into their manufacturing process and the other supplies finished ceramic goods for sale to customers.

a) Raw material

The raw materials used in the manufacturing process mainly consist of clay, minerals, colouring and other materials. Over 95% of raw materials used by APPI Group in its manufacturing process are sourced locally. The other raw materials are used include frits (colour pigments), feldspar and high quality kaolin, which are usually imported. However, the Group does not rely on a single supplier for its raw materials supply.

b) Finished ceramic goods

In addition to its own manufacturing plants in Malaysia, APPI has also established business ties with other local and foreign manufacturers. There are handful of good local and foreign manufacturers that work together and leverage on their manufacturing capacities to support APPI's orders. The list of local sub-contractors are detailed in Section 4.8 of this Prospectus. In return, APPI gain the marketing strength to secure seasonal export.

The Group outsourced its lower profit margin products to other local and foreign manufacturers. They also out-sourced to these manufacturers, products with designs which are not easily duplicated by the lower cost producers.

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### 3. THE RISKS FACTORS (Cont'd)

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▪ *Dependency on particular Customers*

APPI Group's customers are extensive. On average, the group's sale to each individual customer is around 1% of the total turnover of APPI Group. Both C.H. Brannam Ltd, United Kingdom and Fontina GmbH, Germany are the Group's top customers and in terms of sales value have accounted for approximately 31% and 11% respectively of the Group's 5-year average turnover. However, approximately 58% of the Group's customers individually contribute less than 10% of the Group's five (5) years average turnover. The Group is consistently making effort to expand its customers base so as the Group will not be dependent on one single customer. For detail of APPI customer list, refer to Section 4.7 of this Prospectus.

viii) Exchange Rate Risk

APPI Group is predominantly an export-oriented group, APPI Group's exports are mainly transacted in USD and are subject to foreign exchange fluctuation. Even though the risk is presently low as the Malaysian Ringgit is pegged to the USD, there is no certainty that the present currency peg will be in place in the foreseeable future. However, in order to mitigate the impact of foreign exchange fluctuation, the Group is making effort to increase its business transactions in Ringgit Malaysia i.e. to convert Ringgit Malaysia to foreign currencies upon issuance of invoices to overseas customers.

ix) Environmental Concerns

In the manufacturing of pottery products, APPI ensures that the general environment surroundings of the site are not damaged or polluted. Various forms of environmental friendly approaches have been adopted in the production process. The Group has started using palm olein and gas in the kiln for firing the potteries instead of using wood. The burning of firewood will emit carbon dioxide to the atmosphere. Moreover, the fume would be hazardous to the health and well being of the workers and environment. The Group's decision to switch to gas is in line with the increased global awareness of the importance of environment conservation and APPI will continue to improve to ensure its manufacturing process will meet with the requirements of the governmental environmental enforcement and regulatory agencies.

x) Dependence on Key Personnel

The success of the Group could be attributed to the strong leadership and skilful stewardship of its experienced Directors and senior management. Some of the Directors came from families who are in the pottery business since 3 generations ago. Many of the Directors and management team have been in the pottery industry for more than ten (10) years. A team of well-trained and knowledgeable technical staff and workers are providing technical support to the Group. The Group will continue to offer competitive salary packages to be able to attract and retain skilled personnel to support its business operations. In addition, the Group is also making efforts to retain, train and groom suitable craftsmen and junior employees to participate in the production line and the management of the APPI Group.

xi) Political, Economic and Regulatory Considerations

Adverse developments in political, economic and regulatory conditions in Malaysia and other countries where the Group operates, source its supplies and/or market its products could adversely affect the financial prospects of the Group. Political and economic uncertainties include (but are not limited to) risks of war, expropriation,



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**3. THE RISKS FACTORS (Cont'd)**

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nationalisation, renegotiation or nullification of existing contracts and methods of taxation and currency exchange controls.

xii) Achievability of Forecast

The Prospectus contains certain forecast and projections for the Group that are based on certain assumptions made by the Directors of APPI, but nevertheless are subject to uncertainties and contingencies. Due to subjective judgements and inherent uncertainties of forecasts and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecast and projections contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the description of the bases and assumptions and uncertainties underlying the forecast and projections that is contained herein.

xiii) Capital Market Risk

The performance of the KLSE bourse is very much dependent on external factors such as the performance of the regional and world bourses and the inflow and outflow of foreign funds. Sentiments are also largely driven by internal factors such as the economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariable contribute to the volatility of trading volumes witnessed on KLSE, thus adding risk to the market price of the listed shares of APPI Group. Nevertheless, the profitability of APPI Group is not dependent on the performance of the KLSE.

xiv) Financial Risk

Saved as disclosed in Section 7.6 of the Prospectus, the Group has no other borrowings and indebtedness. The Group has minimal borrowings. The Group's working capital requirements are principally met by internally generated fund with any additional requirement to be funded by external borrowings. Given that the Group has borrowings and the payment of the loan interest is dependent on the interest rate, any fluctuations of the future interest rate may have an impact to the Group's interest and principal repayment.

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