

4. INFORMATION ON THE APPI GROUP

4.1 Incorporation

APPI was incorporated in Malaysia under the Companies Act, 1965 on 3 February 2000 as a public company under the name of APP Industries Berhad to facilitate the listing of APPI Group on the Second Board of the KLSE. APPI is an investment holding company. Its subsidiary companies are principally involved in the following activities:

Subsidiaries	Date of incorporation	Issued and paid-up share capital (RM)	Equity Interest (%)	Principal Activities
APP	29.08.1978	1,300,002	100	Marketing and distribution of pottery and porcelain products, ceramic wares and ornaments
AE	07.05.1990	500,002	100	Trading and manufacturing of pottery and porcelain products
APM	20.06.1980	800,002	100	Manufacturing and trading of ceramic wares and ornaments
APC	23.09.1985	1,500,000	100	Manufacturer and exporter of ceramic and porcelain products
OW	23.04.1996	850,000	100	Trading and manufacturing of ceramic wares
MC *	16.04.1996	2	100	Investment in building, properties and related assets.
AR **	02.05.1996	30,000	100	Investment in building, properties and related assets
LC **	04.05.1996	30,000	100	Investment in building, properties and related assets

Notes:

* wholly-owned subsidiary of APM

** wholly-owned subsidiaries of OW

4.2 Share Capital and Changes in Share Capital

The present authorised share capital is RM50,000,000 comprising 100,000,000 ordinary shares of RM0.50 each whilst its issued and fully paid-up share capital is RM40,000,000 comprising 80,000,000 ordinary shares of RM0.50 each. The Company has no outstanding warrants, options, convertible securities and uncalled capital.

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4. INFORMATION ON THE APPI GROUP (Cont'd)

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
3 February 2000	2.00	1.00	Subscribers' Shares	2.00
27 May 2003	71,799,046	0.50	Issued pursuant to the Acquisitions of APP, AE, APM, APC and OW	35,899,525
20 June 2003	3,750,950	0.50	Rights Issue of 3,750,950 Shares at RM0.50 per Share	37,775,000

On 14 June 2002 the Company has filed with the CCM to sub-divide the par value of the subscribers' shares to RM0.50 each.

4.3 Restructuring

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of APPI on the Second Board of the KLSE, the Company undertook a restructuring scheme which involved the following: -

i) Dividend

A final net dividend amounting to RM5,005,007.70 for the financial year ended 31 December 2002 had been declared and paid to the existing shareholders of APP on 17 March 2003 prior to the issuance of the Prospectus.

ii) Revaluation

The subsidiary companies of APPI have undertaken a revaluation exercise of their landed properties. A total revaluation surplus of RM21,340,132 arising from the revaluation exercise was incorporated into the respective revaluation surplus accounts of the subsidiary companies in the Group. The independent professional valuers commissioned for the revaluation exercise are Henry Butcher, Lim & Long (N) Sdn Bhd and Messrs. W.M. Malik & Kamaruzaman.

iii) Acquisition of APP

APPI entered into a sale and purchase agreement on 27 May 2003 to acquire the entire issued and paid up share capital of APP comprising 1,300,002 ordinary shares of RM1.00 each based on its adjusted consolidated NTA value as at 31 December 2001 after incorporating the revaluation surplus of APP's landed properties. The purchase consideration of RM37,027,734 was satisfied by the issuance of 54,855,902 new ordinary shares of RM0.50 each in APPI, credited as fully paid, at an issue price of RM0.675 per ordinary share to the following parties:-

4. INFORMATION ON THE APPI GROUP (Cont'd)

Name of vendors	No. of shares held in APP	%	Purchase consideration RM	No of APPI Shares issued
Ow Hang Sen	400,001	30.77	11,393,434	16,878,755
Cheah Sun Chuang	400,001	30.77	11,393,434	16,878,755
Dato' Nik Abdul Aziz bin Mohamed Kamil	150,000	11.55	4,276,703	6,329,518
Shaharudin bin Yacub	200,000	15.39	5,698,568	8,439,357
Hashim bin Harun	50,000	3.84	1,421,865	2,109,839
Leong Lai Chin	50,000	3.84	1,421,865	2,109,839
Wong Yip Kee	50,000	3.84	1,421,865	2,109,839
	<u>1,300,002</u>	<u>100.00</u>	<u>37,027,734</u>	<u>54,855,902</u>

The acquisition of APP was completed on 27 May 2003.

iv) Acquisition of AE

APPI entered into a sale and purchase agreement on 27 May 2003 to acquire the remaining 28% of AE based on its adjusted NTA value as at 31 December 2001. The purchase consideration of RM545,929 was satisfied by the issuance of 808,784 new ordinary shares of RM0.50 each in APPI, credited as fully paid, at an issue price of RM0.675 per ordinary share to the following parties:-

Name of vendors	No. of shares held in AE	%	Purchase consideration RM	No of APPI Shares issued
Ow Hang Sen	1	*	4	6
Leong Yew Kin	25,001	5.00	97,490	144,429
Leong Lin	75,000	15.00	292,458	433,271
Aw Yeo Seong	40,000	8.00	155,977	231,078
	<u>140,002</u>	<u>28.00</u>	<u>545,929</u>	<u>808,784</u>

* *negligible*

The acquisition of AE was completed on 27 May 2003

v) Acquisition of APM

APPI entered into a sale and purchase agreement on 27 May 2003 to acquire the remaining 42.5% of APM based on its adjusted NTA value as at 31 December 2001 after incorporating revaluation surplus of APM's landed properties. The purchase consideration of RM1,141,594 was satisfied by the issuance of 1,691,251 new ordinary shares of RM0.50 each in APPI, credited as fully paid, at an issue price of RM0.675 per ordinary share to the following parties:-

4. INFORMATION ON THE APPI GROUP (Cont'd)

Name of vendors	No. of shares held in APM	%	Purchase consideration RM	No of APPI Shares issued
Ow Hang Sen	1	*	3	5
Cheah Sun Chuang	1	*	3	5
Terutake Nagae	100,000	12.50	335,761	497,424
Oh Soon Guan & Sons Sdn Bhd	80,000	10.00	268,609	397,939
Leong Yew Kin	80,000	10.00	268,609	397,939
Leong Lin	80,000	10.00	268,609	397,939
	340,002	42.50	1,141,594	1,691,251

* *negligible*

The acquisition of APM was completed on 27 May 2003.

vi) Acquisition of APC

APPI entered into a sale and purchase agreement on 27 May 2003 to acquire the remaining 80% of APC based on its adjusted NTA value as at 31 December 2001 after incorporating revaluation surplus of APC's landed properties. The purchase consideration of RM5,915,701 was satisfied by the issuance of 8,764,001 new ordinary shares of RM0.50 each in APPI, credited as fully paid, at an issue price of RM0.675 per ordinary share to the following parties:-

Name of vendors	No. of shares held in APC	%	Purchase consideration RM	No of APPI Shares issued
Ow Hang Sen	75,000	5.00	369,731	547,750
Intraco Holdings Sdn Bhd	305,000	20.34	1,503,574	2,227,517
Tan Sri Dato Ir Talha bin Haji Mohamad Hashim	425,000	28.33	2,095,144	3,103,917
Cheah Chee Chon	90,000	6.00	443,678	657,300
Fadzlullah Shuhaimi bin Salleh	90,000	6.00	443,678	657,300
Cheah Sung Chai	50,000	3.33	246,487	365,167
Peh Poh Choo	90,000	6.00	443,678	657,300
Mohamed Feisal bin Ibrahim	75,000	5.00	369,731	547,750
	1,200,000	80.00	5,915,701	8,764,001

The acquisition of APC was completed on 27 May 2003.

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vii) Acquisition of OW

APPI entered into a sale and purchase agreement on 27 May 2003 to acquire the entire issued and paid up share capital of OW comprising of 850,000 ordinary shares of RM1.00 each in OW based on its adjusted consolidated NTA value as at 31 December 2001 after incorporating revaluation surplus of OW's landed properties. The purchase consideration of RM3,833,398 was satisfied by the issuance of 5,679,108 new ordinary shares of RM0.50 each in APPI, credited as fully paid, at an issue price of RM0.675 per ordinary share to the following parties:-

Name of vendors	No. of shares held in OW	%	Purchase consideration RM	No of APPI Shares issued
Ow Hang Sen	280,000	32.94	1,262,766	1,870,766
Leong Yew Kin	170,000	20.00	766,680	1,135,822
Aw Yeo Seong	42,500	5.00	191,670	283,955
Ong Sin Beng	42,500	5.00	191,670	283,955
Chiew Gaik Suan	42,500	5.00	191,670	283,955
Chang Peng Hooi	42,500	5.00	191,670	283,955
Ramly bin Mat Zin	230,000	27.06	1,037,272	1,536,700
	850,000	100.00	3,833,398	5,679,108

The acquisition of OW was completed on 27 May 2003.

Upon completions of the acquisitions as mentioned in Section 4.3(iii) to Section 4.3(vii) above, APPI acquired from APP all its shareholdings in AE, APM and APC at cost. Thus, the entire share capital of AE, APM and APC has been consolidated and held directly by APPI.

viii) Rights Issue

Subsequent to the Acquisitions of APP, AE, APM, APC and OW, the Company undertook a rights issue of 3,750,950 new ordinary shares of RM0.50 each at an issue price of RM0.50 on the basis of approximately 1 new Share for every 20 existing Shares held. The Rights Issue was completed on 20 June 2003. 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.

ix) Offer For Sale and Public Issue

The final stage of the Listing Scheme involves a Public Issue of 4,450,000 new ordinary shares of RM0.50 each at an issue price of RM0.60 per ordinary share and the Offer for Sale of 8,800,000 ordinary shares of RM0.50 at an offer price of RM0.60 per ordinary share, are payable in full on application upon such terms and conditions as set out in this Prospectus. The Offer For Sale and Public Issue totalling 13,250,000 ordinary shares of RM0.50 each will be allocated in the following manner:-

- (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;

4. INFORMATION ON THE APPI GROUP (Cont'd)

- (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
- (iii) 5,000,000 Shares representing 6.25% of the enlarged share capital have been reserved for Bumiputra investors approved by MITI.

All the new ordinary shares issued pursuant to the Offer For Sale and Public Issue will 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 date of this Prospectus.

4.4 Information on the Subsidiary Companies

4.4.1 APP

(i) History and Business Overview

APP was incorporated on 29 August 1978 in Malaysia as a private limited company under the Companies Act, 1965 as Asian Traders Sdn Bhd. It assumed its present name with effect from 21 May 1979. APP is principally involved in the marketing and distribution of pottery and porcelain products, ceramic wares and ornaments.

The company started its operations more than twenty years ago as a humble cottage pottery trader under the stewardship of Mr Ow Hang Sen, the founder of APP. Mr Ow and his management team are skilled personnel with many years of experience in the pottery business. In fact, Mr Ow is from a family who has been in the pottery business for the past three generations.

The APPI Group has expanded its business with the acquisition of several pieces of land in Sungei Siput, Perak and Sekinchan, Selangor to cater for the tremendous increase in production and warehousing activities due to increasing demand for the Group's products. Today, the Group's manufacturing division has expanded from its initial small cottage factory in Penang to few large factories and warehouses covering 24.7-acre land with a workforce of more than 300 personnel. The APPI Group has grown and diversified its operations to marketing, distributing, retailing and exporting a wide range of pottery and related products.

(ii) Share Capital

APP's present authorised share capital is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is 1,300,002 comprising 1,300,002 ordinary shares of RM1.00 each.

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

4. INFORMATION ON THE APPI GROUP (Cont'd)

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
29.08.1978	2	1.00	Subscribers' Shares	2
01.09.1981	100,000	1.00	Cash	100,002
21.03.1992	200,000	1.00	Cash	300,002
30.08.1995	1,000,000	1.00	Otherwise than cash	1,300,002

(iii) Substantial Shareholders

APP is a wholly owned subsidiary of APPI.

(iv) Profit and Dividend

The financial record of APP based on its audited accounts for the past five(5) financial years ended 31 December 1998 to 2002 are as follows:-

	Financial Year Ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	23,384	26,545	38,896	39,703	44,172
EBIDTA	3,339	6,415	6,802	5,874	8,016
Interest expense	(95)	(99)	(78)	(91)	(133)
Depreciation and amortisation	(159)	(220)	(358)	(380)	(458)
Profit before exceptional items	3,085	6,096	6,366	5,403	7,425
Exception items	-	-	-	-	-
PBT	3,085	6,096	6,366	5,403	7,425
Share of results of associated company	-	-	-	-	-
Tax expense *	(494)	(46)	(1,784)	(1,271)	(1,940)
Profit from ordinary activities	2,591	6,050	4,582	4,132	5,485
Extraordinary items	-	-	-	-	-
Minority interest	-	-	-	-	-
Net profit	2,591	6,050	4,582	4,132	5,485
No. of shares in issue ('000)	1,300	1,300	1,300	1,300	1,300
Gross EPS (RM)	2.37	4.69	4.90	4.16	5.71
Net EPS (RM)	1.99	4.65	3.53	3.18	4.22
Dividend rate (%)	-	-	-	-	385

* Adjusted for over/under provision of taxation to the respective years

Commentary on financial information

- Revenue and PAT for financial year ended 31 December 1998 has increased by approximately 37% and 101% respectively as compared to previous year as a result of strong marketing effort by the management. Increase is also contributed by higher price benefited from weakened RM in the said financial year.

4. INFORMATION ON THE APPI GROUP (Cont'd)

Effective tax rate is lower than the statutory tax rate due to double tax deductions for promotion of exports and research and development expenditure.

- *Additional sales orders from non-European markets such as North America, Africa, Middle East, Australiasia and Asia has further contributed to the continued growth of revenue approximately 14% in financial year ended 31 December 1999. The increase in the pre-tax profit by 97.6% was mainly due to the realised foreign exchange gain of approximately RM1.98 million during the year. In addition, the weakened Ringgit has resulted in higher selling prices and thus higher gross profit margin.*

There is no taxation expense for financial year ended 31 December 1999 due to tax waiver year declared for income earned in the said year. Taxation expense for the year represents deferred taxation.

- *Revenue has increased significantly in financial year ended 31 December 2000 of approximately 47% due to increase in sales orders from European and non-European markets.*

However, PAT has decreased by approximately 24% as compared to previous year as a result of tax waiver year in 1999.

- *Revenue for financial year ended 31 December 2001 has remained constant as compared to previous year. However, PAT has slightly decrease by approximately 10% mainly due to decrease in the gross profit margin from 34% to 32.1% due to keen competition from the European market*

The effective tax rate is lower than the statutory tax rate as APP is claiming double tax deductions for promotion of exports.

- *Revenue and PAT for financial year ended 31 December 2002 has increased by approximately 11% and 33% respectively as compared to previous financial year mainly due to APP embarking on a change in marketing strategy by APP in selling direct to overseas retailers, which contributed a higher profit margin as compared to overseas distributors and importers.*

(v) **Subsidiary and Associated Companies**

APP does not have any subsidiary or associated company.

4.4.2 **APM**

(i) **History and Business Overview**

APM was incorporated on 20 June 1980 in Malaysia as a private limited company under the Companies Act, 1965. APM is principally involved in the manufacturing and trading of ceramic wares and ornaments.

APM operates from its factory located at Plot 57, Jalan Logam 3, Kawasan Perusahaan Kamunting Raya, 34600 Kamunting, Perak, with a land area of approximately one-acre. This premise houses its production facilities and its finished goods while some finished goods are sold at its sales and retail centre in Penang.

The company has 42 employees as at 31 December 2002.

4. INFORMATION ON THE APPI GROUP (Cont'd)**(ii) Share Capital**

APM's authorised and issued and paid-up share capital are both RM800,002 comprising 800,002 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
20.06.1980	2	1.00	Subscribers' Shares	2
22.08.1980	200,000	1.00	Cash	200,002
31.08.1985	15,000	1.00	Cash	215,002
31.12.1993	70,000	1.00	Cash	285,002
11.10.1996	66,000	1.00	Cash	351,002
20.12.1996	49,000	1.00	Bonus Issue	400,002
30.12.1996	400,000	1.00	Cash	800,002

(iii) Substantial Shareholders

APM is a wholly owned subsidiary of APPI.

(iv) Profit and Dividend

The financial record of APM based on its consolidated audited accounts for the five(5) financial years ended 31 December 1998 to 2002 are as follows:-

	Financial Year Ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Turnover	1,970	1,964	2,542	2,330	1,897
EBIDTA	234	205	292	353	406
Interest expense	(30)	(37)	(31)	(22)	(5)
Depreciation	(131)	(141)	(153)	(161)	(163)
Profit before exception items	73	27	108	170	238
Exception items	-	-	-	-	-
Share of profits and losses of associated corporations and joint ventures	-	-	-	-	-
PBT	73	27	108	170	238
Tax expense **	*	-	(11)	(15)	(30)
Profit from ordinary activities	73	27	97	155	208
Extraordinary items	-	-	-	-	-
Minority interest	-	-	-	-	-
Net profit	73	27	97	155	208
No. of shares in issue ('000)	800	800	800	800	800
Gross EPS (sen)	9.00	3.37	13.50	21.25	29.75
Net EPS (sen)	9.00	3.37	12.12	19.37	26.00
Dividend rate (%)	-	-	-	-	-

4. INFORMATION ON THE APPI GROUP (Cont'd)

* negligible

** Adjusted for over/under provision of taxation to the respective years

Commentary on financial information

- Revenue has increased by approximately 13% in financial year ended 31 December 1998 as compared to previous year mainly due to increase in export sales. However, the PAT has decreased by approximately 48% as a result of substantial increase in travelling, promotion and advertising costs as compared to previous year.
- There is no current taxation expense in year 1999 as it was waived in accordance with the Income Tax (Amendment) Act 1999
- Revenue for financial year ended 31 December 2000 has increased by approximately 29% due to the increase in sales to APP which has a strong support from the overseas market. The effective tax rate is lower than the statutory rate due to availability of reinvestment allowances.
- Revenue for year 2001 decreased by 8% from approximately RM2.54 million to RM2.33 million, mainly due to the decrease in export sales which was affected by the 911 incident. PAT has increased by approximately 60% mainly due to decrease in administrative expenses such as salaries and directors' remuneration.
- Revenue has decreased by approximately 18% for the financial year ended 31 December 2002 mainly due to APM embarking on a change in marketing strategy by not selling direct to overseas distributors and importers, which contributed a lower profit margin. Pre tax profit has increased by approximately 41% mainly due to the increase production efficiency as a result of new machinery installed and more effective fuel saving control measures being employed.

(v) Subsidiary and Associated Companies

MC is a wholly owned subsidiary company of APM. APM does not have any associated company.

4.4.3 APC

(i) History and Business Overview

APC was incorporated on 23 September 1985 in Malaysia as a private limited company under the Companies Act, 1965. The principal activity of the company is to carry on the business as manufacturer and exporter of porcelain products.

APC operates from its factory located at Lots 12270-12272, Kawasan Perindustrian, Jalan Bernam, 45400 Sekinchan, Selangor, with a land area of approximately 9 acres. This premise houses its production facilities, an its finished goods.

The Company has 27 employees as at 31 December 2002.

4. INFORMATION ON THE APPI GROUP (Cont'd)**(ii) Share Capital**

APC's authorised and issued and paid-up share capital are both RM1,500,000 comprising 1,500,000 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
23.09.1985	2	1.00	Subscribers' Shares	2
03.12.1988	499,998	1.00	Cash	500,000
10.03.1990	500,000	1.00	Cash	1,000,000
15.02.1994	500,000	1.00	Cash	1,500,000

(iii) Substantial Shareholder

APC is a wholly owned subsidiary of APPI.

(iv) Profit and Dividend

The financial record of APC based on its audited accounts for the five (5) financial years ended 31 December 1998 to 2002 are as follows:-

	Financial year ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Turnover	785	1,243	1,976	2,685	4,986
EBIDTA	292	283	366	162	265
Interest expense	(123)	(93)	(85)	(95)	(98)
Depreciation & amortisation	(137)	(113)	(90)	(44)	(56)
Profit before exceptional items	32	77	191	23	111
Exception items	-	-	-	-	-
Share of profits and losses of associated corporations and joint ventures	-	-	-	-	-
PBT	32	77	191	23	111
Tax expense *	(26)	-	(73)	(7)	(47)
Profit from ordinary activities	6	77	118	16	64
Extraordinary item	-	-	-	-	-
Minority interest	-	-	-	-	-
Net profit	6	77	118	16	64
Number of shares in issue ('000)	1,500	1,500	1,500	1,500	1,500
Gross EPS (Sen)	2.13	5.13	12.73	1.53	7.40
Net EPS (Sen)	0.40	5.13	7.87	1.07	4.27
Dividend rate (%)	-	-	-	-	-

Note:-

* Adjusted for over/under provision of taxation to the respective years

4. INFORMATION ON THE APPI GROUP (Cont'd)

Commentary on financial information

- Revenue for financial year ended 31 December 1998 has declined by approximately 35% due to the economic downturn, which has yet to recover. PAT has decreased by approximately 91% mainly due to high interest expense which accounted for about 49% of the total operating cost.
- Revenue has improved by approximately 58% to RM1.24 million in financial year ended 31 December 1999 as a result of substantial increase in the export market. PAT for the year has increased substantially mainly due to reduction in interest expense resulted from the company's effort to reduce its bank overdrafts.

No provision for taxation for the financial year ended 31 December 1999 as it was a taxation exemption year.

- Revenue has continued to grow in financial year ended 31 December 2000 with an increase of approximately 59% due to increase in export sales.

The effective tax rate was higher than the statutory tax rate due to some expenses disallowed for deduction for tax computation.

- Despite the increase in revenue of approximately 36% in financial year ended 31 December 2001 as compared to previous year, profit for the year has decreased mainly due to the increase in sale of low margin products. Decrease is also contributed by the world economic downturn and the September 11 2001 incident.
- Revenue has increased in financial year ended 31 December 2002 by approximately 86% as compared to previous year mainly due to increase in sales to Japan market. PAT for the year has increased substantially from approximately RM16,000 to RM64,000 mainly contributed by increase in sales.

There is no taxation for the year due to deferred taxation credit.

(v) Subsidiary and Associate Companies

APC does not have any subsidiary company or associate company.

4.4.4 AE

(i) History and Business Overview

AE was incorporated on 7 May 1990 in Malaysia as a private limited company under the Companies Act, 1965. The principal activities of the company are trading and manufacturing of pottery and porcelain products.

AE operates from its factory located at Lots 906 and 907, Jalan Jalong, Sungai Siput (U), 31100 Perak with approximately 5.7-acre land area. This premise houses its production facilities, whereas, the finished goods are housed at Lot 907, Jalan Jalong, Sungai Siput (U), Perak. The Company has 178 employees as at 31 December 2002.

(ii) Share Capital

AE's authorised share capital is RM1,500,000 comprising 1,500,000 ordinary

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shares RM1.00 each whilst its issued and paid-up share capital is RM500,002 comprising 500,002 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
07.05.1990	2	1.00	Subscribers' Shares	2
17.07.1990	165,000	1.00	Cash	165,002
30.10.1990	135,000	1.00	Cash	300,002
22.03.1991	50,000	1.00	Cash	350,002
31.12.1991	9,000	1.00	Cash	359,002
25.09.1992	141,000	1.00	Cash	500,002

(iii) Substantial Shareholder

AE is a wholly owned subsidiary of APPI.

(iv) Profit and Dividend

The financial record of AE based on its audited accounts for the five (5) financial years ended 31 December 1998 to 2002 are as follows: -

	Financial year ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Turnover	4,464	4,941	7,491	8,871	8,498
EBIDTA	650	815	1,048	1,139	1,524
Interest expense	(109)	(85)	(61)	(21)	(11)
Depreciation and amortisation	(361)	(378)	(511)	(672)	(656)
Profit before exceptional items	180	352	476	446	857
Exception items	-	-	-	-	-
Share of profits and losses of associated corporations and joint ventures	-	-	-	-	-
Profit before taxation	180	352	476	446	857
Tax expense *	(17)	(40)	(121)	(122)	(92)
Profit from ordinary activities	163	312	355	324	765
Extraordinary items	-	-	-	-	-
Minority interest	-	-	-	-	-
Net profit	163	312	355	324	765
No of shares in issue ('000)	500	500	500	500	500
Gross EPS (sen)	36.00	70.40	95.20	89.20	171
Net EPS (sen)	32.60	62.40	71.00	64.80	153
Dividend rate (%)	-	-	-	-	-

* Adjusted for over/under provision of taxation to the respective years

4. INFORMATION ON THE APPI GROUP (Cont'd)

Commentary on financial information

- Revenue has increased by approximately 31% in financial year ended 31 December 1998 mainly contributed by APP strong marketing effort to increase sales. Increase is further contributed by higher selling prices as a result of the weakened RM during the year.

The effective tax rate was lower than the statutory tax rate due to reinvestment allowances.

- With strong support of APP as a result of the expansion of its non-European markets, revenue has continued to increase by a further 11% in financial year ended 31 December 1999 as compared to previous year. There was no current taxation expense as this was a tax waiver year.
- Financial year ended 31 December 2000 has registered a high growth rate of approximately 52% attributed to increase in the overseas markets for AE products via APP.

The effective tax rate was lower than the statutory tax rate due to the utilisation of reinvestment allowances.

- Revenue for 2001 continued to grow with the enhanced capacity and increased by 19%. Despite the 911 incident, APP is able to absorb all the production of AE since APP has heavily out-sourced its requirements to other third parties. The purchase of new plant and machinery to enhance its production capacity has, however, lowered its profit before taxation as more depreciation is charged and the cost of fuel and raw materials continued to rise.
- While turnover for 2002 has declined by 4% as compared to previous year, the gross profit margin has increased from 10.2% in 2001 to 14.8%/ This is due to effective cost cutting measures by employing more efficient fuel saving control and machinery in the production cycle.

(v) Subsidiary and Associate Companies

AE does not have any subsidiary company or associate company.

4.4.5 OW

(i) History and Business Overview

OW was incorporated on 23 April 1996 in Malaysia as a private limited company under the Companies Act, 1965. OW is principally engaged in the business of trading and manufacturing of ceramic wares.

OW operates from its factory located at Plot 58, Jalan Logam 3, Kawasan Perusahaan Kamunting Raya, 34600 Kamunting Raya, Perak with a land area of 1 acre. This premise houses its production facilities, whereas, the finished goods are housed at Plot 55 and Plot 56, Jalan Logam 3, (Kamunting Jaya), Estet Perindustrian Kamunting 3, 34600 Kamunting Raya, Perak.

The Company has 60 employees as at 31 December 2002.

4. INFORMATION ON THE APPI GROUP (Cont'd)**(ii) Share Capital**

OW's authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM850,000 comprising 850,000 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
23.04.1996	2	1.00	Subscribers' Shares	2
25.09.1996	149,998	1.00	Cash	150,000
11.12.1996	150,000	1.00	Cash	300,000
14.03.1997	200,000	1.00	Cash	500,000
04.12.1998	350,000	1.00	Cash	850,000

(iii) Substantial Shareholder

OW is a wholly owned subsidiary of APPI.

(iv) Profit and Dividend

The financial record of OW based on its audited consolidated accounts for the five (5) financial years ended 31 December 1998 to 2002 are as follows: -

	Financial year ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Turnover	1,056	1,290	1,916	2,081	2,193
EBIDTA	302	341	453	541	667
Interest expense	(81)	(57)	(57)	(46)	(42)
Depreciation	(131)	(144)	(198)	(255)	(319)
Profit before exceptional items	90	140	198	240	306
Exception items	-	-	-	-	-
Share of profits and losses of associated corporations and joint ventures	-	-	-	-	-
Profit before taxation	90	140	198	240	306
Tax expense *	-	-	(2)	-	-
Profit from ordinary activities	90	140	196	240	306
Extraordinary items	-	-	-	-	-
Minority interest	-	-	-	-	-
Net profit	90	140	196	240	306
No of Shares in issue ('000)	850	850	850	850	850
Gross EPS (sen)	10.59	16.47	23.29	28.23	36.00
Net EPS (sen)	10.59	16.47	23.06	28.23	36.00
Dividend rate (%)	-	-	-	-	-

* Adjusted for over/under provision of taxation to the respective years

4. INFORMATION ON THE APPI GROUP (Cont'd)**Commentary on financial information**

- Revenue has continued to increase in financial years ended 31 December 1998, 1999, 2000 and 2001 with additional export orders and orders from APP to meet its customers requirements worldwide.

There is no current taxation expense for financial year ended 31 December 1998 to 2001 due to the reinvestment allowances. The effective tax rate for the year ended 31 December 2001 is lower as compared to the statutory tax rate was mainly due to the availability of the reinvestment allowances.

- Revenue for financial year ended 31 December 2002 has increased by approximately 5% mainly due to increase in production capacity as a result of expanded capacity. PAT has increased by approximately 28% mainly contributed by higher profit margin for the year.

(v) Subsidiary and Associated Companies

Subsidiary companies

Name of company	Date/ Place of incorporation	Issued and paid-up share capital RM	Effective equity interest %	Principal activities
AR	02.05.1996/ Malaysia	30,000	100	Investment in building, properties and related assets
LC	04.05.1996/ Malaysia	30,000	100	Investment in building, properties and related assets

OW does not have any associate company.

4.4.6 MC**(i) History and Business Overview**

MC was incorporated on 16 April 1996 in Malaysia as a private limited company under the Companies Act, 1965. MC is a property investment company.

(ii) Share Capital

MC's authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each.

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4. INFORMATION ON THE APPI GROUP (Cont'd)

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
16.04.96	2	1.00	Subscribers' Shares	2

(iii) Major Shareholder

MC is a wholly owned subsidiary of APM.

(iv) Subsidiary and Associate Companies

MC does not have any subsidiary company or associate company.

4.4.7 AR**(i) History and Business Overview**

AR was incorporated on 2 May 1996 in Malaysia as a private limited company under the Companies Act, 1965. AR is a property investment company.

(ii) Share Capital

AR's authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM30,000 comprising 30,000 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
02.05.1996	2	1.00	Subscribers' Shares	2
10.03.1997	29,998	1.00	Cash	30,000

(iii) Substantial Shareholder

AR is a wholly owned subsidiary of OW.

4. INFORMATION ON THE APPI GROUP (Cont'd)

(iv) Subsidiary and Associate Companies

AR does not have any subsidiary company or associate company.

4.4.8 LC**(i) History and Business Overview**

LC was incorporated on 4 May 1996 in Malaysia as a private limited company under the Companies Act, 1965. LC is a property investment company.

(ii) Share Capital

LC's authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM30,000 comprising 30,000 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
04.05.1996	2	1.00	Subscribers' Shares	2
10.03.1997	29,998	1.00	Cash	30,000

(iii) Substantial Shareholder

LC is a wholly owned subsidiary of OW.

(iv) Subsidiary and Associate Companies

LC does not have any subsidiary company or associate company.

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4. INFORMATION ON THE APPI GROUP (Cont'd)

4.5 Business Overview

APPI was incorporated on 3 February 2000 in Malaysia under the Companies Act, 1965 as a public company under the name of APP Industries Berhad to facilitate the listing of APPI on the Second Board of the KLSE. APPI is principally an investment holding company. The Group's administrative office is located at Lot 906 and Lot 907, Jalan Jalong, 31100 Sungai Siput (U), Perak Darul Ridzuan.

One of its wholly owned subsidiary company namely, APP is principally involved in the distribution of pottery and porcelain products, ceramic wares, ornaments and providing packaging and labeling services while the other wholly owned subsidiary companies namely, AE, APC, APM and OW are principally involved in the manufacturing of pottery and porcelain products, ceramic wares and ornaments with majority of their products sold to APP for further distribution to customers. LC and AR are the wholly owned subsidiary companies of OW and MC is the wholly owned subsidiary company of APM. These companies are principally involved in property investment.

Its non-structural ceramic decorative ware and pottery products are made mainly from clay and the Group manufactures many designs, sizes and shapes. A list of products manufactured by the Group is set out in Section 4.5.1 in this Prospectus. The Group operates a total of four factories and another one to be commissioned by year 2003. Information on the Group's factories, retail showroom and warehouse are set out below:-

Details	Location	Land Area (sq. ft)	Built-up Area (sq. ft)	Optimum Production Capacity	Production Output
Factory - 1	Asian Pottery Manufacturers Sdn Bhd Plot 57, Jalan Logam 3 (Kawasan Perusahaan Kamunting Raya), Kamunting, 34600 Perak.	43,562	21,000	1,080,000 pcs	600,000pcs*
Factory - 2	Asian Earthenware Sdn Bhd Lot 906 & 907, Jalan Jalong 31100 Sungai Siput (U), Perak.	350,324	112,849	1,500,000 pcs	1,200,500pcs
Factory - 3	Oriwina Sdn Bhd Plot 55, 56 & 58, Jalan Logam 3 (Kawasan Perusahaan Kamunting Raya), Kamunting, 34600 Perak.	131,482	67,000	980,000 pcs	795,000pcs
Factory - 4	Asian Porcelain Sdn. Bhd. Lot 12270-12272, Kawasan Perindustrian, Jalan Bernam 45400 Sekinchan, Selangor	392,040	68,080	1,400,000 pcs	470,000 pcs
Factory - 5	Asian Pottery (Penang) Sdn. Bhd. Lot 929, Jalan Jalong 31100 Sungai Siput (U), Perak	200,000	Vacant	Not in operation yet	Not in operation yet
Main Warehouse	Asian Pottery Warehouse Lot 947 & 948, Jalan Jalong 31100 Sungai Siput (U), Perak.	395,888	108,000	530 x 20' (storage capacity)	530 x 20' (storage capacity)

* producing at 80% of maximum capacity

Source: APPI

4. INFORMATION ON THE APPI GROUP (Cont'd)

Besides manufacturing of non-structural ceramic decorative ware and pottery, the Group also provides, amongst others, packaging and labeling services to its customers.

Development of the Group

The APPI Group was established in 1979 with the incorporation of APP, a company that is involved in the manufacturing of ceramic L&G decorative products. APP is currently in its twenty fourth year of operations. APP began operations in Tanjung Bungah, Penang producing ceramic L&G and home ware and ceramic tourist souvenirs in the late eighties.

Over the years, APP has remained focused on its core business in producing high quality decorative ceramic products for the export and local markets. In the 1980's APP expanded their business to include the production of ceramic decorative items for the Malaysian and Singaporean hospitality industry (new hotel projects). However, of the financial year 2002, only approximately 7% of its local turnover was derived from this category of business i.e. 0.37% as compared to the entire Group's proforma turnover. APPI Group has evolved over the years and now principally focus on the production of high quality ceramic L & G products for export markets.

The Company's export business began in 1985, when APP shipped eight (8) 20' containers worth RM5,000 per container of garden planters to Australia. Current trade with Australia has increased to more than RM3 million. Since then, its export business has grown exponentially, with an annual average of 2400 units 20' containers of high-fired characteristic winter resistant pots being shipped overseas to Europe, US, Japan, Australia and New Zealand. From manufacturing simple garden planters, the Group has successfully expanded its product lines to indoor hydro-culture containers and indoor decorative pots, microwave-safe ceramic kitchenware, ornamental products and other decorative ceramic items.

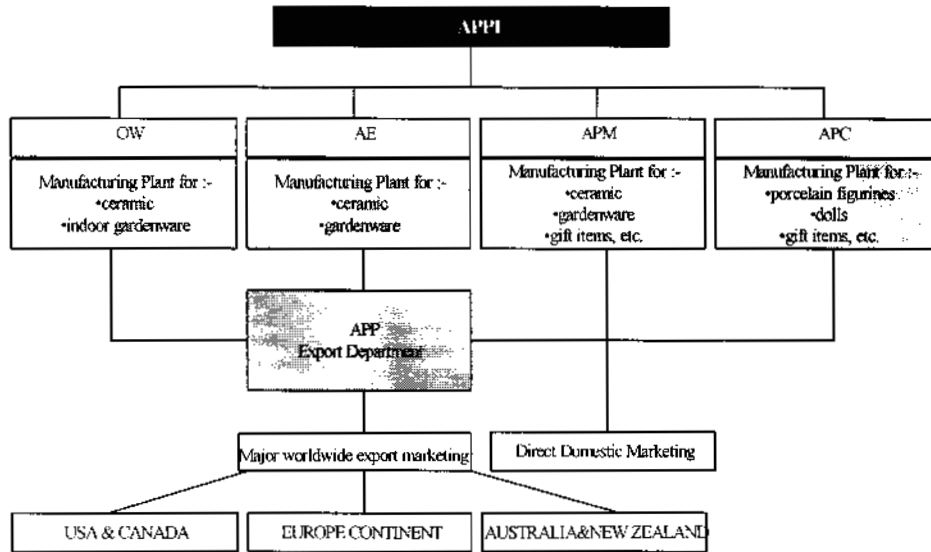
The Group aims to establish a presence in the marketplace as a manufacturer for high quality decorative ceramic products at competitive prices for the local and export market. Therefore, APPI Group will expand its business to more territories around the globe with high acceptance in L&G activities as part of their lifestyle and in parallel with its current customers in order to increase market share and achieve a global presence.

Today, APPI is one of the leading manufacturers-cum-exporters of non-structural ceramics decorative ware and pottery products in Malaysia. The Group's business operations have grown steadily since formation, as a result of its reputation for integrity, reliability, quality and professionalism.

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4. INFORMATION ON THE APPI GROUP (Cont'd)

The overview of APPI Group's manufacturing and distribution arms as well as the product types and the main export markets is reflected below.



Source : APPI

Manufacturing Plants

The Group's manufacturing plants are mostly located in Perak mainly due to the accessibility of good quality clay from the area. These factories manufacture a wide range of pottery products for the domestic and overseas markets. APP, being the marketing and distribution division in the Group, purchases pottery products from the above mentioned manufacturing factories and exports mainly to Germany, United Kingdom, Switzerland, Denmark, US and Japan. Importers and distributors of these countries sell to renowned DIY chain stores, home and garden centres, specialty stores, discount stores and hypermarkets. Please refer to section 4.5.4 of this Prospectus for details of the Group's customers.

The Group's manufacturing factories are currently operating at 80% capacity on a single shift. As at to date, the Group has the following production facilities:-

- a) Clay extruder machines;
- b) Hydraulic forming machines;
- c) Jiggering machines;
- d) Firing kilns (shuttle kilns and tunnel kilns);
- e) Press machines;
- f) Glazing machines;
- g) Packing machines; and
- h) Warehousing facilities

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4. INFORMATION ON THE APPI GROUP (Cont'd)

4.5.1 Principal Products and Services

Principal Products

APPI's main focus is the L&G products. This category contributes approximately 95% of total turnover of the Group per annum. Other than the L&G range of products, the Group also manufactures a small percentage of household ceramic decorative items, which contribute an approximate 5% of the Group's turnover. The table below illustrates the range of L&G products and the household ceramic decorative items offered to both the overseas and local customers.

Type of products	Description
<u>L&G Category</u>	
Planters	Ranging from simple to highly intricate designs, shapes and styles. These products are used as containers for plants and can be divided into indoor and outdoor products, which carry different product features.
Underliners or Saucers	Pot underliners are complimentary products of the garden pots. This product category is used as plant containers in various shapes with the purpose of decoration as well as promoting plant's health by holding water.
Pot feet	Pot feet also promotes plant health and improves the presentation outlook.
<u>Household Ceramic Decorative Category</u>	
Table-top decorative items	Vases, lamp-bases, astrays, wall ornaments, containers and souvenirs.
Kitchen decorative items	Utensils, preservative jars, timbers, dinner sets, tea and coffee sets, mugs and cups

As at 31 December 2002, APPI has approximately 100 products in its catalogs. A listing of the major products manufactured and sold by the Group are listed below:-

Category / Product Type	Product Type	Product Description	Registered Brandnames	Approximately Number of Shapes
Lawn & Garden	Outdoor Ceramic Planters	Pots	Cera Jardine and Hang Sen.	Approximately 200 (Cera Jardine) and 100 (Hang Sen) varieties for the entire L&G product category to date, excluding motive and surface designs

4. INFORMATION ON THE APPI GROUP (Cont'd)

Category / Product Type	Product Type	Product Description	Registered Brandnames	Approximately Number of Shapes
Lawn & Garden	Ceramic Garden Accessories	Wall Plaque, Stepping Stones, Garden Edges, Pot Feet, Saucers / Underliners, Ceramic Stones, Bird-baths	Cera Jardine and Hang Sen	50 (Cera Jardine) and 10 (Hang Sen)
	Ceramic Garden Decorations	Sculpture, Stools, Fountains, Animals, Garden Lamps, Water Gardening Urns.	Cera Jardine and Hang Sen	40 Cera Jardine only
Indoor & Veranda	Ceramic Planters	-	Cera Indah	Approximately 200 varieties of shapes and forms for the entire Indoor & Veranda category
	Ceramic Vases & Pots	-	Cera Indah	180
	Ceramic Indoor Fountains	-	Cera Indah	10
Home Decoration & Functional Pieces	Dining Sets	-	Registration for the entire Home & Garden product category has been applied for and pending approval	Approximately 650 shapes and forms to date, including trading items not manufactured by APP
	Ceramic Illuminating Products	-	Home & Garden	70
	Ceramic Oil Burners	-	Home & Garden	10
	Ceramic Indoor Fountains	-	Home & Garden	100
	Functional & Decorative Bowls	-	Home & Garden	100
	Mugs & Coffee/Tea Sets	-	Home & Garden	100
	Utensils & Storage Jars	-	Home & Garden	10
	Vases & Household Fancy Containers	Mosquito Coil Holders, Pencil Holders etc	Home & Garden	120
	Table-top decorative	-	Home & Garden	230

Source: APPI

4. INFORMATION ON THE APPI GROUP (Cont'd)

APPI was also one of the first companies in Malaysia to begin the production of rim-glazed pottery at very competitive prices. In 1996, APPI acquired the technology and techniques to mass-produce these rim-glazed pottery products. This allowed the Group to reduce costs yet increase productivity, making their pricing relatively competitive in the marketplace. These rim-glazed pottery products are deemed higher grade than the normal pottery products in the market due to their 100% 'finished' look.

Principal Services

Besides manufacturing ceramic non-structural household products, APPI Group offers, amongst others, designing, packaging, bar-coding, international labeling, easy retail packaging and other value-added services to their export customers. The Group also provides services in landscaping consultation to its local customers.

4.5.2 Industry Fragmentation and Key Players of the Non-Structural Household Products Sector

The local ceramics manufacturing industry has a very straightforward structure and can be divided into 2 major categories –

1. Structural-Clay Products - mainly ceramic tiles, bricks, roofing tiles and pipes.
2. Non-Structural Products which is further divided into –
 - Utility Clay Products or Whiteware - sanitary-ware, ceramic formers and other similar products.
 - Household products - tableware, decorative ceramic ware, flower pots and other similar products. (This sub-sector is also called the non-structural household products sub-sector or the non-structural ceramic decorative ware and pottery sub-sector)
 - Kaolin.

The Non-Structural Household Products sector falls under the new Standard International Trade Classification¹ ("SITC") coding of 6912.00 - 6914.90. This includes –

1. Ceramic tableware, kitchenware, other household articles and toilet articles, other than of porcelain or china. (SITC 6912.00),
2. Statuettes and other ornamental ceramic articles (SITC 6913.00). and
3. Other ceramic articles (SITC 6914.00)

The Group's business is currently focused in the Non-Structural Household Product sub-sectors. Due to the uniqueness of the Group position as one of Malaysia's leading decorative lawn and garden ceramic manufacturer, the Group finds that they have no significant local competitors in the same category. However, there is increasing threat from neighbouring countries like Vietnam and Cambodia. The following are the major Vietnamese pottery manufacturers that potentially could compete with the Group, however, their product ranges differ slightly from that of the Group's.

1. Saigon Pottery Co. Ltd. – Exports to U.S., Europe, ANZ, UAE and Japan. Produces fine-art pottery.

¹ SITC codes are used internationally to identify the various categories of products for the purpose of conducting trade. These codes also provide information on the various duties / taxes that are required to be paid by the exporter / importer of such products. SITC codes are considered one of the most comprehensive means of obtaining trade data for countries globally.

4. INFORMATION ON THE APPI GROUP (Cont'd)

2. PDL ("Phuoc Du Long") Pottery Ltd. – Established since 1973, main focus is hand-made flower pots and garden accessories. Exports to ANZ, Europe, U.S. and Japan. Only produces 720 TEUs per annum.
3. Bac Viet Pottery industry Co. Ltd. – Manufacturer, wholesaler and exporter of hand-made pottery. Products are made from a special red clay found only in Binh Duong and Bat Trang areas of Vietnam. Supplies to major markets like U.K., Germany, U.S., Japan and UAE.

In order to maintain this position, the Group intends to leverage on their long-standing relationships with existing customers that has produced a strong rapport and bond between them. The Group's customer network is also very extensive, spanning across Europe, Asia Pacific and U.S., which places the Group in a stronger competitive position compared to other local Malaysian players² in the decorative lawn and garden ceramic industry.

The Group's other competition mitigating strategy is to move into lower cost production countries. This is for 2 major reasons – the first being to reduce their production costs (raw material and labour costs), and participate actively in building the local non-structural ceramic decorative ware and pottery industry via smart partnership. This way, with an established presence in the industry, it would be difficult for newer entrants to unseat the Group. The Group has formed a joint-venture alliance with a plant in China to tap the low cost of labour and availability of red clay as a first step in implementing the strategy discussed.

Source: ACNielsen's report dated 25 June 2002 (with updated version dated 12 December 2002)

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² Specific to the non-structural ceramic decorative ware and pottery industry, there are other local players that also do export, but on a smaller scale.

4. INFORMATION ON THE APPI GROUP (Cont'd)

4.5.2.1 Market Segment

Amongst the major consumer based retailing sub-sectors, the L&G sub-sector is one of the fastest growing, especially in the more developed countries/ continents such as Europe, North America, Australia and Japan.

APPI Group's products are mainly for the export market, with 98% being exported in year 2002. Of the 98%, 58% was exported to Europe, 18% was exported to North America and the remaining to the other parts of the world.

On average, the Group exports about 2,500 units of 20' containers overseas each year. Currently, the largest importing regions for APPI's products are Europe. APPI's annual exports to UK alone for the financial year ended 31 December 2002 amounted to approximately RM13.8 million, which is almost 48% of the total exports to European regions. Other markets include the North America, Australia & New Zealand, Asia, African sub-continent and the Middle East.

The Europe Continent has been the major contributor to the Group's total turnover. From 2000 to 2002, the Europe Continent has contributed an average of approximately 64% of the total Group's export turnover for the past three (3) years. The main contributors in sustaining the market share, amongst others, are extensive marketing and promotional activities, participating actively in international trade shows and overseas marketing trips. The Group also benefited from the recent merger and acquisition activities amongst the bigger L&G players that are customers of APPI where the larger group of companies increased their order quantities of APPI's products.

Since 1999, the North American and Asian regions have increased their orders. The Group believes that the changing lifestyles of consumers in the various regions have helped increased the demand for the L&G products that they manufacture. The lifestyle's of consumers is one of the decision factors for the designs of the decorative ceramic products of the Group. Section 4.6.13 of this Prospectus discusses the lifestyles' of consumers in detail.

The group has also invested heavily in research and development to remain ahead of competition. For details, please refer to Section 4.5.8

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4. INFORMATION ON THE APPI GROUP (Cont'd)

4.5.2.2 Export Markets and Key Players

An analysis of the Group's turnover in respect of market segments for the respective companies for the last three (3) years are as follows: -

Group's Turnover in respect of Market Segments

Market Segment	2000		2001		2002	
	RM'000	%	RM'000	%	RM'000	%
APP						
Europe	27,742	71.3	28,290	71.3	28,331	64.1
North America	6,706	17.3	6,566	16.5	8,756	19.8
Latin America	0	0	0	0	27	0.1
Australia & New Zealand	2,078	5.3	3,153	7.9	4,959	11.2
Asia	1,882	4.8	1,282	3.2	1,878	4.2
African sub-continent	305	0.8	247	0.6	71	0.2
Middle East	82	0.2	136	0.4	120	0.3
Inter-company sales	101	0.3	29	0.1	30	0.1
Total	38,896	100.0	39,703	100.0	44,172	100.0
APM						
Europe	360	14.2	0	0	34	1.8
North America	30	1.1	78	3.3	0	0
Australia & New Zealand	0	0	1	0	0	0
Asia	54	2.1	15	0.7	21	1.1
Middle East	0	0	2	0.1	42	2.2
Domestic market	1,087	42.8	1,020	43.8	708	37.4
Inter-company sales	1,011	39.8	1,214	52.1	1,092	57.5
Total	2,542	100.0	2,330	100.0	1,897	100.0
APC						
Europe	14	0.7	0	0	0	0
North America	563	28.5	114	4.2	209	4.2
Australia & New Zealand	14	0.7	0	0	0	0
Asia	873	44.2	2,139	79.8	4,516	90.6
Domestic market	512	25.9	377	14.0	103	2.1
Inter-company sales	0	0	55	2.0	158	3.1
Total	1,976	100.0	2,685	100.0	4,986	100.0
AE						
Domestic market	41	0.5	105	1.2	158	1.9
Inter-company sales	7,450	99.5	8,766	98.8	8,340	98.1
Total	7,491	100.0	8,871	100.0	8,498	100.0
OW						
Europe	166	8.7	148	7.1	104	4.7
North America	0	0	26	1.2	14	0.6
Australia & New Zealand	0	0	14	0.7	0	0
Asia	0	0	0	0	14	0.6
Middle East	0	0	52	2.5	53	2.4
Domestic market	11	0.6	18	0.9	19	0.9
Inter-company sales	1,739	90.7	1,823	87.6	1,989	90.8
Total	1,916	100.0	2,081	100.0	2,193	100.0
Total	52,821		55,670		61,746	
Less: inter-company sales	(10,302)		(11,887)		(11,609)	
Proforma Group turnover	42,519		43,783		50,137	
N1						

Source : APPI

Note:

N1 Proforma turnover based on audited financial statements with the assumption that APPI had acquired APP, APM, AE, APC and OW prior to 2000.

4. INFORMATION ON THE APPI GROUP (Cont'd)

An analysis of the Group's turnover in respect of product types for last three (3) years are as follows: -

Product type	2000		2001		2002	
	RM'000	%	RM'000	%	RM'000	%
APP						
L&G	38,896	100.0	39,703	100.0	44,172	100.0
	38,896	100.0	39,703	100.0	44,172	100.0
APM						
L&G	1,531	60.2	1,248	53.6	1,149	60.6
Household ceramic decorative items	1,011	39.8	1,082	46.4	748	39.4
TOTAL	2,542	100.0	2,330	100.0	1,897	100.0
APC						
L&G	590	29.8	665	24.8	3,038	60.9
Household ceramic decorative items	1,386	70.2	2,020	75.2	1,948	39.1
	1,976	100.0	2,685	100.0	4,986	100.0
AE						
L&G	7,491	100.0	8,871	100.0	8,498	100.0
	7,491	100.0	8,871	100.0	8,498	100.0
OW						
L&G	1,916	100.0	2,081	100.0	2,193	100.0
Total	1,916	100.0	2,081	100.0	2,193	100.0
Total	52,821		55,670		61,746	
Less: inter-company sales	(10,302)		(11,887)		(11,609)	
Proforma Group turnover ^{N1}	42,519		43,783		50,137	

Source: APPI

Note:

N1 Proforma turnover based on audited financial statements with the assumption that APPI had acquired APP, APM, AE, APC and OW prior to 2000.

4.5.3 Marketing and Distribution/ Export Division

The Group's wholly owned subsidiary company, APP carries on the business of marketing and distribution of all ceramic flower pots and pottery products. APP is the core-marketing arm as well as a major revenue contributor of the entire APPI Group. Over the years, APP has expanded and focused its business in export-oriented market. The company's clientele base spread over Australasia, Europe, America, Canada, Japan and part of Asia. The table below sets out the contribution of the Group's export markets from 2000 to 2002.

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4. INFORMATION ON THE APPI GROUP (Cont'd)

	2000	%	2001	%	2002	%
	RM'000		RM'000		RM'000	
Europe	28,281	66.5	28,438	65.0	28,469	56.8
North America	7,299	17.2	6,784	15.5	8,979	17.9
Latin America	0	0	0	0	27	0.1
Australia and New Zealand	2,092	4.9	3,168	7.2	4,959	9.9
Asia	2,809	6.6	3,436	7.8	6,429	12.8
African sub-continent	305	0.7	247	0.6	71	0.1
Middle East	82	0.2	190	0.4	215	0.4
	40,868	96.1	42,263	96.5	49,149	98.0
Domestic market	1,651	3.9	1,520	3.5	988	2.0
Proforma Group turnover ^{N1}	42,519	100.0	43,783	100.0	50,137	100.0

Source : APPI

Note:

N1 Proforma turnover based on audited financial statements with the assumption that APPI had acquired APP, APM, AE, APC and OW prior to 2000.

4.5.4 Distribution Network

APPI distributes its product via several channels as follows:

- a. Importers
- b. Agents
- c. Direct Import to retailer for special projects

The most traditional method of distribution is via importers with APPI sending full container loads by sea. This is also the most effective way of distribution for the Group. International packaging standards are used to reduce the occurrence of breakage or accidents in handling whilst products are in transit. The haulage company insures all containers leaving APPI warehouses. Once containers are on board, the products will become the responsibility of the customers. Importers liaise directly with APPI via telephone, electronic mail, facsimile, trade shows and selected client meetings. APPI Group has established business relationships with overseas agents who will distribute their products to the overseas customers who may be retail stores, DIY shops and etc. As the market gets more competitive over the years, retailers are beginning to source for products themselves and arrange shipment directly to their stores. Thus, this has promoted a direct import program. APPI, with a comprehensive warehouses and flexible production capacities is capable of handling this method of distribution.

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4. INFORMATION ON THE APPI GROUP (Cont'd)

Further to the above, APPI's distribution network for its ceramic L&G products are as follows:-

Name of Importers / Distributors / Wholesaler	Type of Business	Country of Origin	Years of Relationship	Average Sales from 2000 – 2002 RM'000
C.H. Brannam Limited*	Importer/ Distributor/ Retailer	United Kingdom	18	14,020
Fontina GmbH	Importer /Distributor	Germany	15	3,972
Fontina Rossler AG	Importer / Distributor	Switzerland	15	3,018
Gemex Trading Ltd	Sourcing Agent	Germany	5	1,812
Hamico (A) Pty. Ltd.	Importer	Australia	5	2,389
OBI Merchandise Center GmbH	Sourcing Agent/ Retailer	Germany/ Switzerland	11	912
Alts Co. Ltd	Importer	Japan	4	3,258
Van Der Gucht Pottery & Bamboo	Importer	Belgium	15	761
Planteskole – Ringe AMBA	Retailer	Denmark	11	416
Calloway's Nursery Inc.	Retailer	United States of America	6	789
Northcote Pottery Services Pte Ltd	Retailer	Australia	19	548
Atico Overseas Ltd	Sourcing Agent	United States of America	3	730
Sloat Garden Centers Inc.	Retailer / Importer	United States of America	14	484

Source : APPI

Approximately 45% of APPI Group's products are for chain stores and DIY stores, 30% for importers and distributors and 25% for retailers.

4. INFORMATION ON THE APPI GROUP (Cont'd)

APPI's customer list includes the following seven (7) of the two hundred (200) Global Retailers:-

Global Retailer	Country of Origin	Rank
Canadian Tire Corporation Ltd	Canada	189
Home Depot U.S.A Inc	United States of America	4
IKEA	Sweden	69
Lowe's Companies Inc	United States of America	28
Migros Genossenschaft	Switzerland	66
Sears Canada Inc	United States of America	9
Leroy Merlin	France/ Spain	164

Source : Extracted from Global Powers of retailing, Deloitte Touche Tohmatsu, 2002 Issue

The table below provides details on **APP's** order backlog as at 31 December 2002, for the last 6 months of operations –

Month	Malaysia – Backlog Order (RM)	China – Backlog Order (RM)	Total Backlog Order (RM)
July 2002	1,509,829	nil	1,509,829
August 2002	1,872,895	314,526	2,187,421
September 2002	1,211,553	358,356	1,569,909
October 2002	2,791,768	679,191	3,470,959
November 2002	1,401,414	831,678	2,233,092
December 2002	404,046	970,113	1,374,159
Total	9,191,505	3,153,864	12,345,369

Source : APPI

APPI's order backlog consists of flower pots that are manufactured in anticipation of the peak seasons as well as confirmed orders from customers. The Group's orders are received six to nine (6 to 9) months in advance with a production lead-time of three (3) months. Occasionally, emergency orders from customers due to unanticipated circumstances may also contribute to the backlog numbers.

Order cancellation happens occasionally and since orders are received far in advance, this usually results in APPI making some minor adjustments to their production schedule. While APPI can take legal action against customers for cancelled orders based on the proforma invoices issued, this route of action is usually not taken. According to APPI, as a result of good client relationship, customers often replace cancelled orders with additional orders of other product ranges. Occasionally, shipments may also be delayed at the customer's request if their warehousing facilities are congested.

4. INFORMATION ON THE APPI GROUP (Cont'd)**4.5.5 Production Cycle**

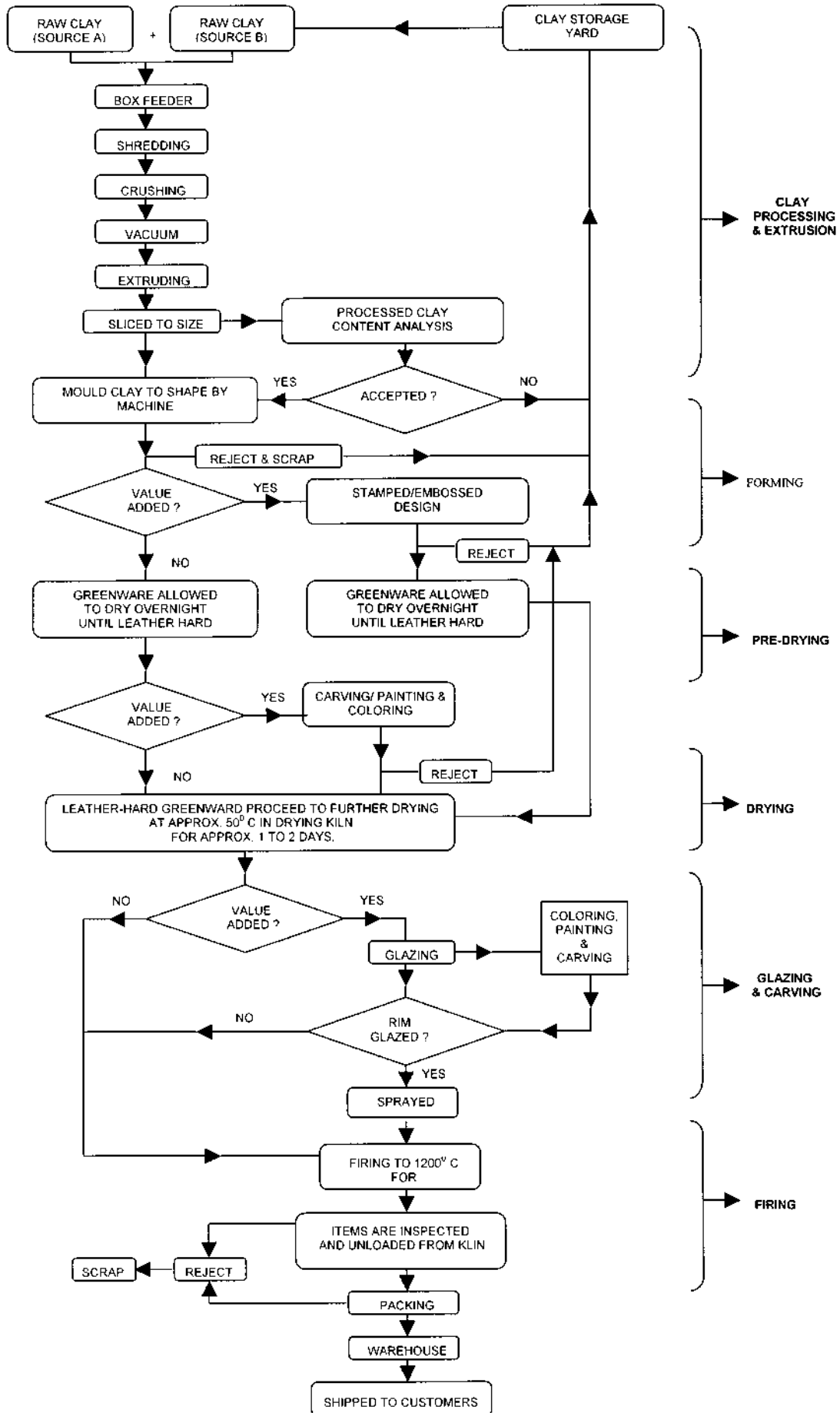
In terms of the manufacturing process, APPI handles mainly 2 types of business, OBM and ODM. Approximately 30% of APPI Group's turnover is contributed by OBM business while the balance of 70% is contributed by ODM business. The OBM business looks at the manufacture of the Group's products under their own brands, namely, Cera Indah and Cera Jardine. Whilst the ODM business concentrates on the manufacturing of products that are 100% designed by APPI, however not sold under their own brands. Generally for ODM orders, the customers will provide input into the conceptual design of the product.

The manufacturing process forms the crux of APPI's twenty-four year old business and therefore, the Company has adequately invested in machinery that has aided in the lowering of the Group's production or operational costs and upgrading the production process and delivery quality. Some of these machineries are listed out in the table below.

Machinery	Purpose	Country of Origin	Units	Total Cost (RM)
Clay Extruder	To produce processed clay cake for the hydraulic forming machine.	Japan, China & Malaysia	5	382,091
Automatic Roller Machine	This semi-automatic machine can mould, trim and wash clay wares without manual supervision. The speed and cycles are programmed and controlled via a dashboard.	Japan	1	293,100
Hydraulic Press	Presses out greenware (unfired) of various shapes, according to production specifications.	Malaysia	27	867,548
Shuttle Kilns	To fire clay wares to high temperatures until it is fully "cooked" and has the desired colour toning effect.	Malaysia	29	2,340,204
Tunnel Kiln	Same functionality as the Shuttle Kiln, except that it is able to cater to large volumes due to its continuous cycle, and is more economical to operate on a longer term basis.	Malaysia	1	1,550,020
Micro Kiln	Same functionality as the Shuttle Kiln, except that it is able to cater to large volumes due to its continuous cycle, and is more economical to operate on a longer term basis.	Malaysia	1	399,893

Source : APPI

4. INFORMATION ON THE APPI GROUP (Cont'd)



4. INFORMATION ON THE APPI GROUP (Cont'd)

The following description of the manufacturing process is to be read together with the flow chart detailed in the previous page.

Process	Description
Clay storage yard	A reserved area for storing raw clay from various sources. Rejected greenware and scrap during forming process are dumped to the yard for recycle.
Clay Extrusion	The process where raw clay is shredded and crushed to finer texture before thoroughly mixed with the right proportion of water and vacuum compressed to the required hardness and plasticity upon extrusion.
Clay analysis	Clay sample is taken at random every two (2) hourly for: <ul style="list-style-type: none"> ▪ Content analysis; ▪ Drying shrinkage size; and ▪ Firing shrinkage size
Greenware forming	A process where the processed clay is mould in machine of the required shape. Value added process such as design embossing and stamping are done immediately after the greenware is formed.
Pre-drying	The greenware formed is left over-night to dry under normal room condition to achieve leather-hard body.
Kiln Drying	The leather-hard ware is further dried in the drying kiln under a temperature of approximately 50°C using waste heat from nearby firing kiln. The drying duration is between 24 hours to 48 hours depending on item size.
Value-added	This includes glazing, spraying, painting and carving as required.
Glaze making	A process where clay, raw materials including oxides are mixed together to correct viscosity.
Firing process	The pots and other wares are loaded on kiln cars and fired to 1200°C for approximately 20 hours after which the fired items are allowed to cool gradually under control to avoid accidental shock which may result crack and tension defects to the wares.
Packing	The fired wares are unloaded from the kiln cars and transferred to packing for full inspection and packing according to customers' specifications.
Warehousing	The packed goods are then transferred to the warehouse for palletising and storage to standby for shipment.

Source : APPI