9. INDUSTRY REVIEW

9.1 General Overview

Recovery of the Malaysian economy gained momentum in 2002 amidst a more challenging external environment. Real economic growth turned positive in the first quarter and strengthened to 5.6% in the fourth quarter. For the year as a whole, real gross domestic product (GDP) expanded by 4.2% compared with 0.4% in 2001.

Economic growth was broad based, driven by strong domestic demand and reinforced by improved export performance. While public expenditure was strongly supportive of economic activity, growth was reinforced by sustained strength in consumer spending and external demand. Low interest rates, improved access to financing and the significant improvement in commodity prices provided strong stimuli for private sector expenditure to grow.

(Source: Bank Negara Malaysia Annual Report 2002)

9.2 Dependence on other industries

The electrical and mechanical engineering services industry is directly and indirectly correlated to the dynamism of the following industries:

9.2.1 Infrastructure and construction industries

Construction-related industries are expected to benefit from the ongoing implementation of fiscal stimulus projects as well as sustained performance of the housing sub-sector. On the whole, the industry recorded a growth of 5.5% (January-June 2001 : 10%).

Demand is estimated to grow stronger this year, partly aided by the increased utilisation of cement in several ongoing and planned public infrasturcture projects to be implemented in 2002/2003.

(Source: Economic Report 2002/2003)

In 2002, growth in the construction sector was maintained at 2.3%. Growth was supported mainly by higher Government expenditure on infrastructure projects and household demand for residential property. In the non-residential sub-sector, construction activity remained focussed on existing projects given the prevailing large overhang of office and retail space.

In the civil engineering sub-sector, growth was stimulated by higher Federal Government development expenditure on construction-related projects, especially for projects related to the transportation, education, housing and public utilities sub-sectors. One of the major ongoing public projects is the electrified double tracking of the railway track between Rawang and Ipoh. Privatised road projects such as the Kajang Ring Road, Butterworth Outer Ring Road, Guthrie Corridor Expressway, New Pantai Highway, Package C of the SPRINT Expressway and the Kajang-Seremban Expressway further supported activity in the construction sector. Ongoing work were related to the construction of power plants, rails, ports and sewerage projects.

(Source: Bank Negara Malaysia Annual Report 2002)

According to the Economic Stimulus Package which was announced by the Ministry of Finance on 21 May 2003, the Government will continue to undertake development projects, with priority given to infrastructure and construction-related projects, which have multiplier effects on the economy.

9.2.2 Manufacturing industry

Signs of turnaround in the manufacturing sector have become more visible in the second quarter of 2002, After experiencing 11 months of consecutive decline, output of the manufacturing sector has improved from –11% recorded in the fourth quarter of 2001 to bounce back with three straight months of positive growth since April 2002. A steady recovery of the sector is anticipated for the rest of the year, on account of a revival in external demand and sustained growth in domestic consumption.

(Source: Economic Report 2002/2003)

Strengthening domestic demand, together with the recovery in exports, led to a turnaround in the manufacturing sector in 2002. Value added in the sector expanded by 4.1%, from a contraction of 6.2% in the previous year. Overall, manufacturing production expanded by 4.5% (2001 : -6.6%), due to the stronger performance of the export-oriented industries, while the domestic-oriented industries grew at a moderate pace. In line with the expansion in production, the overall manufacturing sector in 2002 reflected mainly higher volume, while export prices continued to decline.

(Source: Bank Negara Malaysia Annual Report 2002)

9.2.3 Tourism, hospitality and services industries

The Government's strategy to diversify sources of growth of the economy has contributed significantly to the growth of the services sector. In 2002, the services sector is expected to expand by 5.3% (2001 : 5.7%) .... The sector remains the largest contributor to the growth and accounts for 57% of total real GDP (2001 : 56.6%). Within the sector, growth will continue to be broad based, with bigger increases coming from the wholesale and retail trade, hotels and restaurants as well as the finance, insurance, real estate and business servicess sub-sectors.

(Source: Economic Report 2002/2003)

In the case of hotels, a total of 102 new hotels were completed during the year, providing an additional 5,785 rooms. The average occupancy rate remained stable at 58%, but with the increase in tourist arrivals to 13.3 million in 2002, the occupancy rates in mahor city areas in Penang, Johor Bahru and Melaka recorded an increase.

(Source : Bank Negara Malaysia Annual Report 2002)

9.2.4 Performance in East Asian Countries

East Aisa, led by China, the Republic of Korea (ROK) and Taiwan, has been the fastest growing region since the Aisan financial crisis. Real GDP growth is expected to accelerate to a robust 5.2% in 2002 (2001 : 4.3%) spurred by a rebound in the global electronics cycle. Further, with intra-regional trade now accounting for a larger share of total trade, these economies including the Association of South-East Asian Nations (ASEAN) stand to gain from China's strong economic performance, which is exected to further enhance the growth momentum.

China grew at a blistering pace of 8% in the second quarter, after a strong first quarter growth of 7.6%. Growth was boosted by exports and strong state spending on housing, roads, airports and other infrastructure projects. Exports, which accounted for 20% of GDP, were mainly from foreign manufacturers who had benefitted from China China's entry into the World Trade Organisation (WTO). China is expected to continue attracting FDI in search of low labour costs amd a huge domestic market. With the yuan, one of the three Asian currencies pegged to the dollar, the weakening of the US dollar since April has provided Chinese exports the competitive edge.

Real GDP growth for the year is expected to remain one of the highest in the world at 7.5% (2001 : 7.3%). However, weak domestic demand remains a concern and China is expected to rely on state spending, exports and FDI to achieve the high growth target.

(Source : Economic Report 2002/2003)

The strong economic growth in regional economies supported the rapid expansion of intra-regional trade in East Asia. The impetus to intra-regional trade stemmed partly from strong economic growth and trade liberalisation in the People's Republic of China to comply with the terms of the World Trade Organisation. Reflecting robust growth in both exports and imports, trade with the People's Republic of China expaned by a record 49% in 2002.

(Source : Bank Negara Annual Report 2002)

9.3 Industry life cycle

The growth of the electrical and mechanical engineering services industry is closely related to the performance of the infrastructure and construction industries.

During the Seventh Plan period, road development was guided by the need to expand capacity and upgrade existing roads. Total road network increased from 61,380 kilometres in 1995 to 65,880 kilometres in 2000. The road subsector accounted for nearly 59.8 per cent of the total allocation for the infrastructure sector with total expenditure of RM12.3 billion. In addition, the private sector also expanded a total of RM7.9 billion for the development of privatised highways compared with RM15.2 billion during the Sixth Plan period.

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In line with efforts to improve inter-urban linkages and provide better transport facilities, several new road construction projects were completed or are under construction, as show in the table below.

MAJOR ROAD PROJECTS IMPLEMENTED OR UNDER CONSTRUCTION 1995-2005

	Project	Length (km)	Completion (Year)
	Completed Projects		
i	**Government-Funded Projects**		
	Access Road to Kulim Hi-Tech Industrial Park	9	1999
	Kota Tinggi Bypass	10	1997
	Eastern Access to KLIA	17	1998
	Berungis-Kota Belud Highway	38	1998
	Middle Ring Road II (Phase I)	35	1998
	Access Road to Belaga, Sarawak	126	1999
	Kuala Perlis-Changloon Highway	36	2000
	Access Road to Port of Tanjung Pelepas, Johor	8	2000
	Sungai Dinding Bridge	10	2000
	Upgrading of B15	10	2000
	South Klang Valley Express Section 1A	11	2000
	Access Road to Toxic Waste Plant in Bukit Nenas, Negeri Sembilan	17	2000
ii	**Privatized Projects**		
	Butterworth-Kulim Highway	17	1996
	Seremban-Port Dickson Highway	22	1997
	North-South Expressway Central Link	48	1997
	Shah Alam Expressway	35	1998
	Second Link to Singapore	45	1998
	Kuala Lumpur-Karak Highway	60	1998
	Cheras-Kajang Highway	12	1998
	Damansara-Puchong Highway	40	1998
	Upgrading Sungai Besi Road	16	1999
	Under Construction		
i	**Government-Funded Projects**		
	Upgrading Beaufort-Sindumin Road	65	2001
	Beaufort-Mempakul Road	64	2001
	Lipat Kajang (Melak) Interchange to North-South Expressway	2	2001
	Sungai Rejang Bridge	7	2001
	Brinchang-Lojing Road	22	2001
	East-Coast Highway	169	2003
ii	**Privatized Projects**		
	New North Klang Straits Bypass	18	2001
	Western Kuala Lumpur Traffic Dispersal Scheme	26	2001
	New Pantai Highway	20	2003
	Kajang-Seremban Highway	48	2004
	Butterworth Outer Ring Road	19	2004
	Ipoh-Lumut Highway	70	2004
	Kajang Traffic Dispersal Highway	37	2004

The construction sector which grew at an average rate of 13.4 per cent per annum in the period of 1996-97, recorded negative growth for the period 1998-2000 resulting in an overall negative growth of 1.1 per cent per annum during the Plan period. For the more developed states, the construction sector registered negative growth of 1.4 per cent due to the deferment of major infrastructure projects as well as residential and commercial properties. The construction sector in the less developed states recorded negative average growth rate of 0.6 per cent per annum. However, three states had positive growth, namely Pahang 2.0 per cent, Sabah 0.4 per cent and Terengganu 0.2 per cent.

(Source: Eight Malaysia Plan 2001 – 2005)

9.4 Industry players and competition

According to the management of LFECB, the electrical and mechanical engineering services industry is dominated by a few operators. To date, there are a large number of licences approved by Lembaga Pembangunan Industri Pembinaan Malaysia, Suruhanjaya Tenaga Malaysia and Pusat Khidmat Kontraktor ("PKK"). However, only a small number of companies of Class 1 status are currently active in undertaking large scale electrical and mechanical engineering works.

9.5 Relevant laws and regulations governing the industry

LFEE holds a Class 1 PKK licence issued by Kementerian Pembangunan Usahawan which enables LFEE to tender for and undertake electrical works of any monetary size above RM50,001 within Malaysia.

Apart from the above and those stipulated in the Occupational Safety & Healt Act, 1994, Environmental Quality Act, 1974 (Act 127), Lembaga Pembangunan Industri Pembinaan Malaysia, Uniform Building By-Laws, Fire Services Act and Jabatan Bekalan Elektrik Law and Regulations, the Group is not governed by any other special laws and regulations.

9.6 Summary of prospect and outlook of the industry

The services sector is expected to grow by 7.7 per cent during the Plan period. Higher growth is expected from three major subsectors, namely, the finance, insurance, real estate and business services; the wholesale and retail trade, hotels and restaurants; and transport, storage and communication subsectors. The wholesale and retail trade, hotels and restaurants subsector will be propelled by positive wealth effects and also the concerted efforts to make Malaysia a major tourist and shopping destination.

The construction sector is projected to grow at an annual average rate of 6.5 per cent during the Plan period, taking into consideration the excess supply of office and commercial space in the property market. In addition, major infrastructure projects have been completed or are at various stages of implementation.

Road development programme will be continued with emphasis on quality and safety. New roads construction will focus on opening up corridors for development as well as improving accessibility to rural areas. Construction of roads through privatisation and deferred payment method will be continued on a selective basis, thereby sustaining road project implementation.

(Source: Eight Malaysia Plan 2001-2005)

In an environment of heightened uncertainty in the global economy, growth in the Malaysian economy would be mainly domestic driven, supported by a modest growth in external demand. Real GDP growth has the potential to be sustained in the region of 4.5% in 2003 (4.2% in 2002).

The projection for growth in 2003 are based on a modest world economic growth, some pick-up in the global electronics industry, firm commodity prices and further expansion in intra-regional trade.

On this regard, key strategies in the 2003 Budget focused on promoting domestic investment in all sectors with growth potential, in particular to promote activities in new and niche growth ares in the services, agriculture and manufacturing sectors; enhancing human resource development to support a knowledge-based economy; and strengthening Malaysia's competitive position.

Meanwhile, real GDP growth in the People's Republic of China is projected to be sustained at a high level of 7%, included by strong domestic demand, maintenance of supportive monetary and fiscal policies, increase in foreign direct investment and an acceleration in its privatisation policy.

Value added growth in the manufacturing sector is expected to increase by 5% in 2003, on the assumption of a modest global economic outlook and moderate growth in the global electronics sector. The rising trend in intra-regional trade is expected to continue to augment demand for exports of manufactured goods.

In the services sector, growth is expected to be sustained at 4.4% in 2003 (2002 : 4.5%), reflecting continued expansion across all sub-sectors. Growth is expected to emanate from both the intermediate and final services sub-sectors. In particular, the transport, storage and communications sub-sector is expected to pick up in view of the expected expansion in trade, higher tourist arrivals, and growth in the telecomunications industry. Similarly, the wholesale and retail trade, hotels and restaurants sub-sector is expected to benefit from the increase in tourist spending and sustained domestic demand, while the utilities sub-sector is projected to strengthen in line with the improved performance of the manufacturing sector.

With the labour shortage problem expected to improve in the first half of 2003, growth in the construction sector is envisaged to increase by 1.9%, reflecting mainly the slower growth in the civil engineering and residential sub-sectors. This reflects reflects the lower spending on infrastructure projects by both the private sector and the Government following the completion of some of the on-going projects.

(Source: Bank Negara Malaysia Annual Report 2002)

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10. MORATORIUM

Pursuant to the moratorium condition imposed by the SC in approving for the Listing, the shareholders of LFECB listed below will not be allowed to sell, transfer or assign their respective proportion of LFECB Shares as set out below, amounting to 45% of the enlarged issued and paid-up share capital of LFECB for one (1) year from the date of admission of LFECB to the Official List of the Second Board of KLSE ("Moratorium Period").

The following shareholders have agreed for the following number of LFECB shares held by them to be placed under moratorium:-

Shareholders	No. of LFECB Shares held after the IPO		No. of LFECB Shares Under moratorium	
	No. of ordinary shares	% of enlarged share capital	No. of ordinary shares	% of enlarged share capital
Ramli Bin Abu Kasim	5,287,182	10.17	4,447,344	8.55
MCL Realty	4,885,841	9.40	4,110,177	7.90
EBSB	12,615,381	24.26	3,000,000	5.77
Liew Meow Nyean	844,392	1.62	710,549	1.37
LMN Realty	4,605,562	8.86	3,873,675	7.45
Lew Mew Choi	8,628,169	16.59	7,258,256	13.96
	36,866,527	**70.90**	**23,400,001**	**45.00**

Following the IPO and subject to the SC's approval, Ramli Bin Abu Kasim, MCL Realty, Liew Meow Nyean, Lew Mew Choi and LMN Realty will transfer part or all their respective holdings of LFECB Shares, representing approximately 46.64% of the enlarged paid-up share capital of LFECB, to two (2) investment holding companies, namely, KJH and KJV. For details, please refer to Section 8.1.2 of this Prospectus.

As a result of the transfer, 23,400,001 LFECB Shares which are required to be placed under moratorium upon Listing will be held by KJH, KJV and EBSB. In compliance with the SC's requirement on moratorium, all the shareholders (all being individual) of KJH, KJV and EBSB had on 24 September 2003 given their respective written undertakings to the SC that they will not sell, transfer or assign their shareholdings in KJH, KJV and EBSB respectively during the Moratorium Period.

In addition, the restriction will be endorsed in the share certificate representing KJH, KJV and EBSB's shareholdings that are under moratorium to ensure that LFECB's registrar do not register any transfer not in compliance with the restriction imposed by the SC.

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11. APPROVALS AND CONDITIONS

The FIC and MITI approved the listing scheme on 4 September 2002 and 16 September 2002 respectively. There were no conditions imposed by the FIC.

The SC approved the listing scheme via its letters dated 11 March 2003, 16 September 2003, 23 September 2003 and 25 September 2003. Further, the SC via its letter dated 23 September 2003 had also approved the extension of time for the implementation of the listing scheme to 11 November 2003. The conditions imposed by all the authorities and the status of compliance are as follows:-

		Details of Conditions Imposed	Status of Compliance
SC	(i)	The utilisation of proceeds raised from Placement is subject to the following:-	
		(a) Approval from the SC is required for any changes to the utilisation of proceeds other than for the core business of LFECB;	To be complied, if applicable.
		(b) Shareholders' approval is required for any deviation by twenty five percent (25%) or more from the utilisation as determined. If the deviation is less than twenty five percent (25%), appropriate disclosure should be made to the shareholders of LFECB;	To be complied, if applicable.
		(c) LFECB shall disclose in its listing prospectus the purpose and time frame for utilisation of proceeds. Any extension of time from the time frame set by LFECB requires approval from the Board of Directors of LFECB through a clear resolution and to be disclosed in full to the KLSE; and	The purpose and time frame fo utilisation of proceeds are disclosed in Section 5.6.1 of this Prospectus.
		(d) Appropriate disclosure on the status of utilisation is required to be made in the quarterly and annual report of LFECB until total proceeds have been fully utilised.	To be complied, if applicable.
	(ii)	Moratorium conditions as summarised under Section 10 of this Prospectus.	To be complied.
	(iii)	The Promoters, Directors and substantial shareholders of LFECB shall not be involved in any other businesses which may give rise to a conflict of interest situation either, directly or indirectly, with the businesses of the LFECB Group in the future. In relation to this, the promoters and the substantial shareholders of LFECB are required to provide written confirmations that they shall not involve in any new business in the future which is similar/competing with the existing businesses of the LFECB Group;	Complied. Confirmation letters from the Promoters and substantial shareholders of LFECB have been furnished to the SC on 24 September 2003.
	(iv)	The Directors and substantial shareholders who are involved in the LFECB Group on a full time basis shall not be involved full time in their own private businesses	The Directors and substantial shareholders of LFECB have taken note of the condition.

		Details of Conditions Imposed	Status of Compliance
SC *(Cont'd)*	(v)	Any future transactions between the LFECB Group and companies connected to the Directors or substantial shareholders of LFECB must be on arm's-length and not on any special term that is detrimental to the LFECB Group. Such transactions at this juncture, if any, must be fully disclosed in the listing prospectus of LFECB. In this regard, the audit committee of LFECB is required to monitor and the Board of Directors of LFECB is required to report such transactions, if any, in the annual report of LFECB.	The Directors and substantial shareholders of LFECB have taken note of the condition and will comply with this condition. Details of such transactions are set out in Section 12.1 of this Prospectus.
	(vi)	Full disclosure on the following shall be made in the Prospectus:- (a) The status of trade debtors, ageing analysis on trade debtors; and (b) The Directors of LFECB to comment on the recoverability of trade debts that exceed the credit period.	Details are set out in Section 7.6 of this Prospectus.
	(vii)	Full provisions shall be made in relation to trade debts exceed the credit period:- (a) that are under disputes; (b) for which legal action have been taken; or (c) which are outstanding for more than six (6) months.	The SC had via its letter dated 25 September 2003 approved LFECB's appeal from not having to comply with condition (vii)(c) **only to the extent** that it applies to **retention sums** which are not yet due and payable to LFECB or not under disputes or under legal action.
		The Directors of LFECB are required to furnish the SC with written confirmations that the aforesaid conditions have been complied with prior to the Listing.	Complied. The said written confirmation has been furnished to the SC on 24 September 2003.
	(viii)	The Directors of LFECB are required to furnish the SC with written declaration that all trade debtors without provisioning are recoverable in full, otherwise, full provisions in relation to the recoverability of all trade debts have been made in the accounts and financial forecast.	Complied. The said written confirmation has been furnished to the SC on 24 September 2003.
	(ix)	LFECB must disclose the following in the Prospectus:-	
		(a) risk management plan to mitigate major industry related risks, including the risk of fire breakout, power failure and other risks which may threaten operation flow and the financial performance of LFECB Group;	Complied. Disclosed under Section 6.5 of this Prospectus.
		(b) past and current projects of LFECB Group;	Complied. Disclosed under Section 7.4.12 and 7.4.13 of this Prospectus.
		(c) management succession plan of LFECB Group;	Complied. Disclosed under Section 8.8.2 of this Prospectus.
		(d) the dependency of the businesses of LFECB Group on the buildings and infrastructure industry; and	Complied. Disclosed under Section 9.2 of this Prospectus.

11. **APPROVALS AND CONDITIONS** (continued)

		Details of Conditions Imposed	Status of Compliance
SC *(Cont'd)*		(e) the absence of long-term projects and repetitive projects.	Complied. Disclosed under Section 6.10 of this Prospectus.
	(x)	Certificate of fitness for occupation for all buildings constructed on the Mayduct Land, which is to be acquired by LFECB, must be obtained within six (6) months from the date of this approval letter.	Complied. The approval from Majlis Perbandaran Kajang was obtained on 1 June 2003.
	(xi)	The individual title for the Mayduct Land, which is to be acquired by LFECB, must be obtained within one (1) year from the date of this approval letter.	To be complied. According to the Directors of LFECB, the application to obtain th title for individual ownership for the Mayduct Land is expected to be file with Majlis Perbandaran Kajang by October 2003.
	(xii)	In relation to the foreign subsidiaries of LFECB, disclosure must be made in this Prospectus relating to certain information/documents, as set out in the SC Guidelines, including the disclosure of the following:-	
		(a) Dividend policy of the foreign subsidiaries and the quantum of dividend to be declared;	Complied. Disclosed under Section 13.10 of this Prospectus.
		(b) Specific investment risks and steps taken to mitigate such risks; and	Complied. Disclosed under Section 6.20 of this Prospectus.
		(c) Foreign investment policies and issues relating to repatriation of profits and the time period for the remittance of profits back to Malaysia.	Complied. Disclosed under Section 6.20 of this Prospectus.
	(xiii)	LFECB is to comply fully with the applicable guidelines in relation to companies' listing as stated in the SC Guidelines, including that LFECB will not be permitted to be involved in any other business other than its core business for a period of three (3) years after its listing on the Second Board of the KLSE.	To be complied.
	(xiv)	MIMB and LFECB are required to furnish SC with a written confirmation in relation to the compliance with all the aforesaid terms and conditions imposed by the SC upon completion of the listing of LFECB.	To be complied.

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11. APPROVALS AND CONDITIONS (continued)

The SC had via its letter dated 16 September 2003 approved the proposal by LFEE to declare a tax exempt dividend of RM5,000,000 to the existing shareholders of LFEE in respect of the financial year ended 31 December 2002 prior to the implementation of the Listing, subject to the following conditions:-

		Details of Conditions Imposed	Status of Compliance
SC	(i)	MIMB/LFECB is required to ensure that the proposed payment of cash dividend by LFEE for the financial year ended 31 December 2002 is financed through its internal funds and not throug bank borrowings. MIMB is required to furnish SC with confirmation relating to the source of funds for payment of the said cash dividend.	To be complied.
	(ii)	The external auditors of LFECB are required to confirm to SC, prior to the implementation of the dividend payment, that the proposed dividen payment by LFEE Group for the financial year ended 31 December 2002 will not impair its group NTA value to the extend lower than its NTA value as at 31 December 2001.	To be complied.
	(iii)	The "contra" properties to be settled as dividend i specie, as proposed, are required to be transferred based on market valuation. Copies of valuation reports prepared by a firm of valuers in respect o the said "contra" properties shall be furnished to SC prior to the dividend payment.	To be complied.
MITI	(i)	To obtain SC's approval	Approval of SC was obtained on 11 March 2003, 16 September 2003, 23 September 2003 and 25 September 2003
	(ii)	To obtain FIC's approval	Approval of FIC was obtained on 4 September 2002.

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12. RELATED PARTY TRANASCTIONS / CONFLICT OF INTEREST

12.1 Related Party Transactions/Conflict of Interests

Details of material related party transactions and potential conflict of interest situations are as follows:-

(a) Acquisition of Mayduct Land

Acquisition of Mayduct Land from Lew Mew Choi by LFECB (please see Section 7.3(c) of this Prospectus.

(b) Settlement of Debts

Please see Sections 7.3(d), (e) and (f) of this Prospectus.

(c) Tenancy Agreement between Lew Mew Choi and Mayduct

Pursuant to a Tenancy Agreement dated 1 July 2001 entered into between Lew Mew Choi (as the landlord) and Mayduct (as the tenant) (the "Mayduct Tenancy Agreement"), Lew Mew Choi has granted and Mayduct had taken up a tenancy of the Mayduct Land, for a term of 2 years from the date of the Mayduct Tenancy Agreement, at a monthly rental of RM20,000 payable on the 7th day of each month. Use of the Mayduct Land is restricted to the manufacturing, assembling and storing of finished products. The said tenancy is subject to a renewal for a further term of 2 years at the option of the tenant at a monthly rental to be mutually agreed, provided that such new rental shall not be less than the then prevailing market rental. The tenancy is determinable by Lew Mew Choi giving notice to Mayduct of not less than 2 months.

Pursuant further to the sale and purchase agreement dated 26 June 2002 between LFECB and Lew Mew Choi, as part of the restructuring scheme for the Listing, Lew Mew Choi is to assign and novate his rights and interest in the Mayduct Tenancy Agreement to LFECB. Accordingly, Lew Mew Choi, Mayduct and LFECB had agreed, by a letter dated 15 September 2003 that Lew Mew Choi's rights and interest in the Mayduct Tenancy Agreement would be assigned and novated to LFECB.

(d) *Tenancy Agreement between Lew Mew Choi and LFBVI*

Pursuant to a Tenancy Agreement dated 1 July 2002 entered into between Lew Mew Choi (as the landlord) and LFBVI (as the tenant) (the "**LFBVI Tenancy Agreement**"), Lew Mew Choi has granted and LFBVI has taken up a tenancy of all the premises known as Room 2806, Tower 1, Kerry Everbright City, 218 Tian Wu West Road, Zhabei District, Shanghai 200070, China, for a term of 2 years from 1 July 2002, at a monthly rental of Renminbi 12,000 per month. The rented premises is to be used as an operational office. The said tenancy is subject to a renewal for a further term of 2 years at the option of LFBVI at a monthly rental to be mutually agreed, provided that such new rental shall not be less than the then prevailing market rental. The sub-tenancy is determinable by either giving notice to each other of not less than 2 months.

(e) Tenancy Agreement between Lew Mew Choi and LFJB

Pursuant to a Tenancy Agreement dated 1 January 2003 entered into between Lew Mew Choi (as the landlord) and LFJB (as the tenant) (the "LFJB Tenancy Agreement"), Lew Mew Choi has granted and LFJB has taken up a tenancy of all the premises known as No. 43, Jalan Molek 2/30, Taman Molek, 81100 Johor Bahru, Johor, for a term of 2 years from 1 January 2003, at a monthly rental of RM2,500 per month. The rented premises is to be used as an operational office. The said tenancy is subject to a renewal for a further term of 2 years at the option of LFJB at a monthly rental to be mutually agreed, provided that such new rental shall not be less than the then prevailing market rental. The sub-tenancy is determinable by either giving notice to each other of not less than 2 months.

(f) ***Joint Venture Agreement between Rayton and LFEE dated 25 May 2001***

Joint-Venture agreement dated 25 May 2001, between Rayton and LFEE (the "**LFEE-Rayton JVA No. 1**"), pursuant to which Rayton and LFEE agreed to form an unincorporated joint venture to undertake, carry out and complete the provision and installation of the electrical services portion of the project for the proposed construction and completion of office building and external works at Lot 3G3 (Package 2), Precinct 3 (Phase 2) at Putrajaya for Binaan Goodyear Berhad which has been engaged by Putrajaya Holdings Berhad as the main contractor for the aforesaid project (please see Section 16.8).

(g) ***Joint Venture Agreement between Rayton and LFEE dated 10 January 2002***

Joint Venture Agreement dated 10 January 2002 entered into between LFEE and Rayton (the "**LFEE-Rayton JVA No. 2**") pursuant to which Rayton and LFEE agreed to form an unincorporated joint venture to carry out and complete the provision and installation of electrical services portion of the projects for the proposed design, construction and completion of two office buildings blocks and external works at Lots 2G5 and 2G6 respectively, and both at Precinct 2, at Pusat Pentadbiran Kerajaan Persekutuan, Wilayah Persekutuan, Putra Jaya, for Sunway Engineering Sdn Bhd. According to the LFEE-Rayton JVA No. 2, the parties thereto shall contribute to the working capital requirements in accordance to the specified proportions of Rayton (60%) and LFEE (40%).

(h) ***Future joint bids/ subcontracts between LFEE and Rayton***

LFEE and Rayton may, in future jointly bid for projects and/or LFEE may engage Rayton as its sub-contractor in respect of projects which have been awarded to LFEE

(i) ***Purchases of products by LFEE from Mayduct***

LFEE purchases products from Mayduct for its electrical and mechanical engineering business.

(j) ***Busway***

Lew Mew Choi and Lew Chih Bok, who are promoters of the Company as well as Ir.Cheong Thiam Fook, the Managing Director of Mayduct each hold shares in Busway. Busway was incorporated on 30 October 1990 as Straits Palm Fibre Sdn Bhd and changed its name to its present name on 29 May 1992. Busway was originally formed to develop the MEGA-DUCT busbar trunking system. Busway ceased its manufacturing operations in September 1996 and has since stopped all operations. Notwithstanding that Busway has ceased business operations, the current shareholders of Busway will undertake that Busway will not recommence business operations which will conflict with the business operations of Mayduct.

(k) ***Megaduct Marketing Sdn. Bhd***

Soong Moi @ Song Mou, one of the substantial shareholders of LFECB, is also a substantial shareholder in Megaduct Marketing Sdn Bhd ("Megaduct"). The other shareholders of Megaduct are Chong Thiam Fat and Leong Sau Leng. Megaduct was incorporated on 23 August 2000. Megaduct is a single purpose sales and marketing company which promotes and develop sales of the MEGA-DUCT busbar trunking system in Malaysia while Mayduct concentrates on the business of manufacturing and overseas market development and sales. As at 15 September 2003, MEGA-DUCT has, among its outstanding delivery commitments is in the process of being fulfilled. Upon fulfilment of these delivery commitments, to avoid any future potential conflict of interests, the current shareholders of Megaduct will undertake that they will procure Megaduct to cease its business of the sales and distribution of MEGA-DUCT products.

(l) ***Dato' Hamzah Bin Zainudin***

Dato' Hamzah Bin Zainudin is currently a director of Bintai Kinden Corporation Bhd, a public company listed on the KLSE which is involved in substantially the same business as LFEE Group. This may give rise to a potential conflict of interest. He does not hold any shares in Bintai Kinden Corporation Bhd. Please refer to Section 8.2 of this Prospectus for his other directorships and substantial shareholdings in all other Malaysian public companies for the past two years.

(m) ***Subcontracts between LFEE and LFET***

LFEE engages LFET as its sub-contractor in respect of projects which have been awarded to LFEE.

The Directors of LFECB, LFEE and Mayduct confirm that the above related party transactions have been entered into on normal commercial terms and at arm's length.

12.2 Declaration by Advisers

To the best of its opinion, knowledge and belief, MIMB is not aware of any conflict of interest which we would deem material in our role as adviser, managing underwriter and placement agent in relation to the Listing, save as disclosed below:-

EON Bank Berhad, which wholly-owns MIMB, has extended to LFEE an overdraft facility of RM6.0 million (with outstanding balance of RM6 million as at 15 September 2003), a term loan of RM6.0 million (with outstanding balance of RM3.8 million as at 15 September 2003), trade credit facilities of RM10.0 million and bank guarantees of RM9.0 million (with both facilities being fully utilised as at 15 September 2003). The latest audited consolidated shareholders' funds of EON Bank Berhad was RM2,075.4 million as at 31 December 2002.

Messrs Zain & Co confirms that there is no conflict of interest in its capacity as Solicitors for the Company in relation to the IPO.

Messrs KPMG have given confirmation that there is no conflict of interest in its capacity as Auditors and Reporting Accountants respectively in relation to the IPO.

Collier, Jordan Lee & Jaafar Sdn Bhd have given confirmation that there is no conflict of interest in its capacity as Valuers in relation to the IPO.