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## 2. PARTICULARS OF THE PUBLIC ISSUE

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This Prospectus is dated 30 January 2004.

A copy of this Prospectus has been registered with the SC. A copy of this Prospectus, together with the Application Form has also been lodged with the ROC and neither the SC nor the ROC takes any responsibility for its contents.

**The approval of the SC obtained *vide* its letters dated 6 August 2003, 18 December 2003 and 13 January 2004 shall not be taken to indicate that the SC recommends the Public Issue and investors should rely on their own evaluation to assess the merits and risks of the Public Issue.**

An application will be made to MSEB within 3 Market Days from the date of issuance of this Prospectus for admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of KRB on the Second Board. These Shares will be admitted to the Official List on the Second Board and official quotation will commence upon receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and an undertaking from MIDFCCS that the notices of allotment will be issued and despatched to all successful applicants.

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

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, MSEB has prescribed KRB as a prescribed security. In consequence thereof, the Public Issue Shares issued through this Prospectus will be deposited directly with the MCD and any dealings in these Public Issue Shares will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.

Pursuant to the Listing Requirements issued by MSEB, at least 25% of the enlarged issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 KRB Shares each upon completion of the Public Issue. The Company is expected to achieve this at the point of listing of the entire share capital of KRB on the Official List of MSEB. In the event the above requirement is not met pursuant to the Public Issue, the Company may not be allowed to proceed with the listing of the entire share capital of KRB on the Official List of MSEB. In the event thereof, monies paid in respect of all applications shall be returned without interest.

Persons submitting applications by way of Application Forms or by way of Electronic Share Applications **MUST** have a CDS account. Where an applicant does not presently have a CDS account, he/she should open a CDS account at an ADA prior to making an application for the Public Issue Shares.

MSEB assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. Admission to the Official List of the Second Board is not to be taken as an indication of the merits of the Company or of its Shares.

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

**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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The distribution of this Prospectus and the making of the Public Issue in certain other jurisdictions outside Malaysia may be restricted by law and the Company and/or RHB Sakura take no responsibility for the distribution of this Prospectus and/or sale of the Public Issue Shares outside Malaysia. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue Shares in any jurisdiction in which such invitation is not authorised or lawful or to any person to whom it is unlawful to make such invitation.

The SC shall not be liable for any non-disclosure on the part of KRB and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus. **Investors should rely on their own evaluation to assess the merits and risks of the investment. In considering the investment, investors who are in any doubt as to the action to be taken should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.**

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## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

### 2.1 Share Capital

	RM
<b>Authorised</b>	
100,000,000 ordinary shares of RM0.50 each	50,000,000
<b>Issued and fully paid-up as at the date of this Prospectus</b>	
68,000,000 ordinary shares of RM0.50 each	34,000,000
<b>To be issued pursuant to the Public Issue</b>	
12,000,000 new ordinary shares of RM0.50 each	6,000,000
	40,000,000
 <b>Issue Price per Share</b>	 0.90

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

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the shareholders of ordinary shares in the Company shall be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company in accordance with the Company's Articles of Association.

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

### 2.2 Details of the Public Issue

The Public Issue is subject to the terms and conditions of this Prospectus and upon acceptance, the Public Issue Shares will be allocated in the following manner: -

(i) **Malaysian Public**

(a) **Balloting**

6,000,000 Public Issue Shares, representing 7.5% of the enlarged issued and paid-up share capital will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions; and

(b) **Private Placement**

4,000,000 Public Issue Shares, representing 5% of the enlarged issued and paid-up share capital will be by way of private placement to identified investors (who are deemed public) by the Placement Agent;

## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

### (ii) Eligible employees and customers of the KRB Group

2,000,000 Public Issue Shares representing 2.5% of the enlarged issued and paid-up share capital have been reserved for eligible employees and customers of the KRB Group.

A brief description of the criteria used in the allocation of pink forms to eligible employees and customers of the KRB Group as approved by the Board of Directors of the Company is set out below:

<u>Category</u>	<u>Number of eligible employees and customers</u>	<u>Pink Form Allocation</u>
Assistant Managers to General Manager	7	379,000
Executives	9	100,000
Technical and supervisory	23	139,000
Clerical and related occupations	10	30,000
General and factory workers	54	152,000
Customers	240	1,200,000
Total		<u>2,000,000</u>

The allocation of pink forms to the eligible employees of the KRB Group is generally based on seniority, position and length of service. The criteria for allocating pink forms to certain customers of the KRB Group is based on the Directors' judgment as to the contributions made by these customers to the KRB Group.

Any Shares in respect of paragraph (i)(b) and (ii) not subscribed for by the identified investors, eligible employees and customers of the KRB Group will be made available for application by the Malaysian public under paragraph (i)(a). The Public Issue Shares under paragraph (i)(a) (including any Shares not subscribed for under paragraphs (i)(b) and (ii)), have been underwritten.

### 2.3 **Basis of Arriving at the Issue Price**

The Issue Price of RM0.90 per Share was determined and agreed upon by the Company and RHB Sakura as Adviser, Underwriter and Placement Agent based on various factors including, *inter alia*, the following: -

- (i) the Group's future plans and prospects as outlined in Section 4.7 of this Prospectus;
- (ii) the forecast net PE multiple of approximately 7.10 times based on the forecast net EPS of 12.67 sen based on the enlarged number of shares in issue and the Issue Price of RM0.90 per Share; and
- (iii) the proforma consolidated NTA per Share of KRB as at 31 July 2003 of RM0.71 as set out in Section 9.3 of this Prospectus.

However, investors should note that the market price of the Shares upon and subsequent to the listing on the Second Board are subject to the vagaries of market forces and other uncertainties, which may affect the market price of the Shares. Investors should also bear in mind the Risk Factors as set out in Section 3 of this Prospectus before deciding whether or not to invest in the Shares.

## 2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

### 2.4 Opening and Closing Date of the Application

Applications for the Public Issue will be accepted from 10.00 a.m. on 30 January 2004 and will be closed at 5.00 p.m. on 10 February 2004 or for such further period or periods as the Directors of KRB and the Underwriter and Placement Agent in their absolute discretion may mutually decide. Any extension to the closing date for the applications will be published in a widely circulated daily English and Bahasa Malaysia newspapers within Malaysia before the original closing date. Late applications will not be accepted.

### 2.5 Timing of Events

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

Events	
Date of Prospectus/ Opening Date of Application for the Public Issue	30 January 2004
Closing Date of Application for the Public Issue	10 February 2004
Tentative Balloting Date	12 February 2004
Tentative Allotment Date	18 February 2004
Tentative Listing of the Company's entire issued and paid-up share capital on the Second Board	24 February 2004

### 2.6 Purposes of the Public Issue

The purposes of the Public Issue are as follows: -

- (i) To provide an opportunity for Malaysian investors and institutions and the eligible employees and customers of the KRB Group to participate in the equity and growth of the KRB Group;
- (ii) To enable the KRB Group to gain access to the capital markets for its funding obligations; and
- (iii) To facilitate the listing of and quotation for KRB's entire issued and paid-up share capital on the Second Board.

### 2.7 Utilisation of Proceeds

The total gross proceeds of approximately RM14.645 million (to be raised from the Rights Issue and Public Issue) will accrue to the Company and will be utilised in the following manner:-

Utilisation	Note	RM '000
Repayment of bank borrowings	1	13,145
Payment of estimated listing expenses	2	1,500
		<u>14,645</u>

## 2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

*Notes:*

- (1) *The repayment of bank borrowings will result in estimated interest savings of approximately RM680,000 per annum, assuming an average interest rate of 5.2% per annum.*
- (2) *All expenses incidental to the listing of and quotation for the entire issued and paid-up share capital of KRB on the Second Board, estimated at RM1,500,000, shall be borne by the Company.*

*The estimated listing expenses of RM1,500,000 consist of the following:*

	<b>RM'000</b>
<i>Professional fees</i>	700
<i>Brokerage and commission</i>	324
<i>Advertisement and printing of Prospectus</i>	150
<i>Issuing house's fees</i>	100
<i>Authorities' fees</i>	70
<i>Contingencies</i>	156
	1,500

*Any variation in the actual listing expenses from the estimated amount will be funded from/ used for the KRB Group's working capital.*

The gross proceeds of approximately RM14.645 million to be raised from the Rights Issue and Public Issue are expected to be fully utilised for the above purposes within 6 months from the receipt of the proceeds.

The proforma impact of the utilisation of proceeds on the consolidated balance sheets of KRB as at 31 July 2003 is reflected in Section 9.3 of this Prospectus.

### 2.8 Commission and Brokerage

The Underwriter and Placement Agent as mentioned in the "Corporate Directory" section of this Prospectus, has agreed to act as the Placement Agent for 4,000,000 Public Issue Shares and underwrite up to 12,000,000 Public Issue Shares (comprising 6,000,000 Public Issue Shares, plus up to 6,000,000 Public Issue Shares not taken-up by the identified investors and eligible employees and customers of the KRB Group) to be issued to the Malaysian public. The total commission payable by the Company is RM216,000 amounting to 2% of the Issue Price of RM0.90 per Share.

Brokerage is payable in respect of the Public Issue Shares by the Company at the rate of 1% of the Issue Price of RM0.90 per Share in respect of successful applications which bear the stamp of RHB Sakura, member companies of MASEB, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS.

### 2.9 Salient Terms in the Placement and Underwriting Agreement

The Placement and Underwriting Agreement was entered into between RHB Sakura and KRB on 17 November 2003 (as supplemented by letters dated 18 December 2003 and 15 January 2004) ("Underwriting Agreement"). The salient terms (including escape clauses) of the Underwriting Agreement, amongst others, are as follows:

- (i) The obligations of RHB Sakura under the Underwriting Agreement are conditional upon, amongst others, the following:

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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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- (a) the Kuala Lumpur Stock Exchange ("KLSE") having agreed in-principle for the listing of and quotation for the entire issued and paid-up share capital of KRB on the Second Board within 2 weeks from the date of the Prospectus;
- (b) the lodgement with the ROC of the Prospectus in accordance with the requirements of the Act together with copies of all documents required by the Act;
- (c) the registration with the SC of the Prospectus in accordance with the requirement of the Securities Commission Act 1993, together with all documents required by the aforesaid Act and the issue by the SC of the relevant certificate of registration of the Prospectus or any like document;
- (d) there not having been on or prior to the allotment and issuance of the Public Issue Shares any material adverse change or development reasonably and likely to involve a material adverse change in the condition (financial or otherwise) of KRB or any of its subsidiaries from that set out in the Prospectus which in the opinion of RHB Sakura is relevant in the context of the initial public offering or the issuance of the Public Issue Shares thereunder;
- (e) the delivery to RHB Sakura on the date on which the application list for subscription of the underwritten shares will be closed of a certificate signed by an authorised Director of KRB confirming that to the best of KRB's knowledge and belief after having made all reasonable enquiries that the warranties and representations as contain in the Underwriting Agreement thereof remains valid and RHB Sakura has been provided with all information with respect to KRB and each of its subsidiary companies that affect the condition of KRB or any of its subsidiaries, financial or otherwise, or the earnings, affairs or business prospects of KRB or any of its subsidiaries that affect the success of the initial public offering and the issue of the Public Issue Shares;
- (f) the Prospectus (for lodgement with the ROC) is in compliance with the Prospectus Guidelines issued by the SC dated 1 April 2003, and the due diligence verification exercise has been conducted for the contents of the Prospectus to ensure the accuracy of information contained therein, and to ensure no false or misleading statements or other facts the omission of which would make any of the statements therein in relation to the KRB Group and/or the initial public offering false or misleading;
- (g) that KRB will undertake the Rights Issue and Share Split exercises in the manner and details of which are more particularly set out in the Prospectus prior to the date of the Prospectus; and
- (h) the KLSE Composite Index at the close of each market day subsequent to the date of the Underwriting Agreement and prior to the date of despatch of the Prospectus, is not lower than 750 points or such other reference point which may be mutually agreed in writing between KRB and RHB Sakura.

If any of the conditions set out above or in the Underwriting Agreement is not satisfied on or before 21 February 2004 or the approval-in-principle of the KLSE for the listing of and quotation for the entire issued and paid-up share capital of KRB on the Second Board is withdrawn or not procured, RHB Sakura shall be entitled to terminate this Underwriting Agreement and in that event, except for the liability of KRB for the payment of costs and expenses as provided in the Underwriting Agreement incurred prior to such termination, the Underwriting Agreement shall be void and cease to have future effect other than rights and obligations which have accrued prior to the cessation of the Underwriting Agreement.

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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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- (ii) RHB Sakura may at any time be entitled to terminate its obligations under the Underwriting Agreement by notice in writing delivered to KRB at any time before the allotment and issuance of the Public Issue Shares if the success of the Public Issue is, in the reasonable opinion of RHB Sakura, materially jeopardised by:
- (a) any Government requisition or other occurrence of any nature whatsoever which adversely affects or will adversely affect the business of KRB or its subsidiaries; or
  - (b) any material adverse change in national or international monetary, financial, (including stockmarket conditions and interest rates) political or economic conditions or exchange control or currency exchange rates which would prejudice materially the success of the Public Issue and their distribution or sale (whether in the primary or in respect of dealings on the secondary market); or
  - (c) any breach by KRB of the warranties and undertakings under the Underwriting Agreement or withholding of information of a material nature from RHB Sakura which, in the opinion of RHB Sakura, would have or can reasonably be expected to have, a material adverse effect on the financial condition, earnings, affairs, business, operations or prospects of KRB, any of its subsidiaries or the KRB Group, taken as a whole, the success of the Public Issue or there is withholding of information of a material nature from RHB Sakura which, if capable of remedy, is not remedied within such number of days as stipulated in the notice requesting for such information from KRB, which in the opinion of RHB Sakura, would have or can reasonably be expected to have, a material adverse effect on the financial condition, earnings, affairs, business, operations or prospects of KRB, any of its subsidiaries or the KRB Group, taken as a whole, the success of the Public Issue; or
  - (d) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, which has or is likely to have an adverse and material effect on the condition, financial or otherwise, or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) of KRB or the KRB Group (taken as a whole); or
  - (e) Any event or series of events beyond the control of the parties (including without limitation acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, acts of war, sabotage, acts of God or accidents) which has or is likely to have the effect of making the Underwriting Agreement or a portion thereof incapable of performance within its terms or which prevents the processing of application, crediting of accounts and/or payments pursuant to the Public Issue or pursuant to the underwriting thereof; or
  - (f) the imposition of any moratorium, suspension or restriction on trading in securities generally in the KLSE.

On delivery of such a notice by RHB Sakura to KRB, the Underwriting Agreement shall be terminated and the obligations of RHB Sakura under the Underwriting Agreement shall cease and none of the parties (except for the liability of KRB in respect of payments of costs and expenses referred to in the Underwriting Agreement incurred prior to such termination) shall have any claim against each other.



**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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**2.10 Approvals from Authorities**

Details of the conditions imposed by all the relevant authorities and status of compliance are set out in Section 6.1 of this Prospectus.

The following authorities approved the Listing Scheme: -

<b>Authorities</b>	<b>Date</b>
SC	6 August 2003, 18 December 2003 and 13 January 2004
MITI	14 February 2003, 9 October 2003 and 26 December 2003
FIC	30 December 2002, 25 September 2003, 8 October 2003 and 5 January 2004

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### 3. RISK FACTORS

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In evaluating an investment in and before applying for the Public Issue Shares, prospective applicants should carefully consider all information contained in this Prospectus including but not limited to the following general and specific risks (which may not be exhaustive):

(i) **No Prior Market for KRB's Shares**

Prior to this Public Issue, there has been no public market for KRB's Shares. There can be no assurance that an active market for KRB's Shares will develop upon its listing on the Second Board or, if developed, that such a market will be sustained. The Issue Price of RM0.90 per Share for the Public Issue has been determined after taking into consideration a number of factors, including but not limited to, the KRB Group's financial and operating history and condition, its prospects and the prospects for the industry in which it operates and the prevailing market conditions. There can also be no assurance that the Public Issue price will correspond to the price at which the Shares will trade on the Second Board upon or subsequent to its listing or that an active market for KRB's Shares will develop and continue upon or subsequent to its listing. The price at which KRB Shares will trade on the Second Board after the Public Issue may be influenced by a number of factors, including the depth and liquidity of the market for KRB's Shares and investors' perception of the KRB Group.

(ii) **Business Risks**

The KRB Group is subject to inherent risks of the vermicelli industry such as raw material and labour shortages, increases in the costs of raw materials and labour, labour disputes, changes in government legislation as well as changes in general economic, business and credit conditions within and outside Malaysia.

The Group seeks to limit these risks through, *inter-alia*, expansion of both existing and new markets, developing and maintaining a diversified market network and investment in automated machinery to improve efficiency and reduce the Group's dependence on labour.

However, no assurance can be given that changes to any of these factors will not have a material effect on the KRB Group's business.

(iii) **Investment Activities Risks**

As an investor of the KRB Group, it is to be noted that the Group will be listed on the Second Board. The performance of MSEB is dependent on various factors including external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as the economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on MSEB, thus adding risk to the market price of KRB Shares. Nevertheless, the profitability of the Group is not dependent on the performance of MSEB.

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

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**(iv) Financial Risks****Borrowings**

The Group's total long-term and short-term borrowings as at 31 December 2003 amounted to RM6.67 million and RM27.86 million respectively. All the loans of the Group are interest bearing. As such, any increase in interest rates will increase the burden of the Group with respect to interest payments of the loans depending on the total outstanding loans as at the point in time. The Directors of KRB seek to minimise this risk by utilising RM13.145 million of the proceeds from the Rights Issue and Public Issue to repay borrowings. However, there can be no assurance that the performance of the Group would remain favourable in the event of adverse changes in interest rates.

**Restrictive Covenants**

The Group has entered into various credit facilities as stated in Section 9.1.4(ii) of this Prospectus with banks or financiers to finance its operations. The agreements governing these credit facilities contain, *inter-alia*, covenants which may limit the Group's operating and financial flexibility. Any act by the Group falling within the ambit or scope of such covenants will require the consent of the relevant banks or financiers. Breach of such covenants may give rise to a right by the bank or financier to terminate the relevant credit facility and/or enforce any securities granted, in relation to that credit facility or may cause a cross default on other credit facilities. The Board of Directors of KRB is aware of such covenants and shall take necessary precautions to prevent any breach of these covenants.

**(v) Dependence on Major Suppliers and Customers**

There are no formal contracts entered into between the Group and its major suppliers. Generally the major raw materials used by the KRB Group, such as rice chips, tapioca starch and sago starch are readily available in Malaysia. The normal course of dealings between the parties are such that the Group will issue purchase orders to its suppliers and the respective suppliers will deliver the goods within the time stipulated in the purchase order. The Board of Directors of KRB believe that the KRB Group has good working relationships with its suppliers, many of whom have been supplying raw materials to the KRB Group for 7 years, which is the average years of relationship of the Group with its top 10 suppliers for the FYE 31 December 2002.

Any dependency on suppliers may disrupt the operations of the Group in the event any of these suppliers decide to increase the prices of the raw materials or varies the quantity to be sold to the KRB Group. As such, the Group has taken steps to diversify the sourcing of the raw materials from as many suppliers as practicable in order to ensure continuous supply of these raw materials at a reasonable price range. The Group has a practice of having approximately 10 suppliers for each of its important raw materials. In addition, the Directors of KRB believe that the dependence on any particular supplier is minimal given that the raw materials used by the Group are easily available.

The Group does not have any formal contracts with its customers. Based on the proforma consolidated income statements for the FYE 31 December 2002, the KRB Group has only 1 customer that individually contributed to more than 5% of the revenue of the Group for the FYE 31 December 2002. Hence, the Directors of KRB believe that the KRB Group's sales currently do not significantly depend on any single customer who may adversely affect the Group's operation and profitability.

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

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The Group started expanding its market by exporting to Singapore, Brunei and Indonesia in 2002. Other expansion plans include exporting to new destinations such as Thailand in the medium term. The Group also intends to export to the Philippines, the European Union and US market as part of its long-term plan.

**(vi) Dependence on Key Personnel**

The KRB Group believes that its continued success will depend significantly on the abilities and continued efforts of its existing Directors and senior management. With the KRB Group's human resource strategies to retain competent personnel such as by encouraging participative management, providing competitive and performance based remuneration, adopting succession planning for key positions and providing employees with a variety of on-going training programmes to upgrade their knowledge and capabilities, the Group's management has expanded and strengthened over the years. Thus, the Group is confident that it would not face difficulties when the younger members of the management team eventually take over from their seniors in the future. In addition, every effort is made to recruit and retain skilled personnel to ensure the continued growth of the Group. However, the loss of key members of the senior management team could adversely affect the Group's ability to compete in the industry.

**(vii) Adequacy of Insurance Coverage on Assets**

The Directors of KRB are aware of the adverse consequences arising from inadequate insurance coverage that could adversely affect its business operation. Although the Group has taken the necessary measures to ensure that all its material assets are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate to compensate for the replacement cost of the assets or any consequential loss arising therefrom.

**(viii) Supply and Costs of Raw Materials**

The main raw materials used for the Group's vermicelli products are rice chips, tapioca starch, cornstarch and sago starch. Although some ingredients used in the Group's manufacturing process are staple goods whereby their prices and supply are regulated by the Control of Paddy and Rice Act 1974, no assurance can be given that any significant changes to the supply and prices of raw materials will not affect the future profitability of the Group. Nevertheless, the Directors of KRB believe that any increase in raw material prices will not have a major impact on the Group's profits as the cost of raw materials could be passed on to consumers. Furthermore, the Group has the expertise to change the raw material mix/composition to mitigate any price increase of a particular raw material. However, it is to be noted that it would be difficult for vermicelli manufacturers, including the Group, to anticipate and hedge against a natural disaster that impairs the world's supply of raw material, for example rice chips.

**(ix) Dependency on Single Product**

At present, the Group's core business is the manufacturing of various types of Vermicelli products. The KRB Group's future revenue depends mainly on the continued acceptance of its Vermicelli products. The Group intends to widen its product range and to reduce its dependency on any single product under the general category of vermicelli. Through its product development initiatives, the Group has in December 2002 manufactured and marketed a new product, i.e. instant bihun.

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

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(x) **Political and Economic Considerations**

The KRB Group's future growth and profitability is linked to the political and economic conditions in Malaysia and other countries that serve as markets for the Group's products. The aforementioned political and economic uncertainties include changes in inflation, interest rates, taxation, existing regulations, Government policies and a change of Government. Whilst the Group will continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that adverse political and economic factors will not materially affect the Group.

(xi) **Operational Risks**

The Group faces certain operational risks which include but are not limited to fire outbreaks, the disruption of electricity and water supply, any occurrence of which would affect the Group's business operations.

The Group has taken precautionary steps to minimise the risk of fire outbreaks through the installation of fire hydrants, fire extinguishers and the dispersal of the storage of raw materials and finished products at various premises. The Group has also installed a sprinkler system at its Kuala Ketil factory. In this regard, the Group has in place a fire-fighting team trained in the use of fire-fighting equipment as well as basic fire-fighting techniques.

As the Group's production process is mostly automated, a consistent supply of electricity and water is required for its smooth operations. In this respect, the Group seeks to limit the risk by maintaining at least one month's supply of finished products for contingency purposes. The Group has also installed water storage tanks in various locations which could store up to a week's supply of water for its production process. However, there is no assurance that these operational risks will not materially affect the Group.

(xii) **Control by Promoters**

After the Public Issue, the Promoters, as set out in Section 5.1 of this Prospectus, will collectively control 50.1% of KRB's enlarged issued and paid up capital. Hence, these Promoters will be able to exercise some extent of influence on the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law, covenants and/or by the relevant authorities.

(xiii) **Competition from new entrants and existing competitors**

The KRB Group operates in a competitive market and faces various competitors, including existing players and new entrants to the industry. As one of the larger players in the vermicelli manufacturing industry in Malaysia, the Directors of KRB are confident that the Group is able to compete with these competitors as it has an established reputation as a reliable supplier that delivers on time. Further, the Group has long standing business relationships with its suppliers and customers, continues to be committed to food technology through product development, produces high quality products and has established a large distribution network. These factors may effectively create a barrier of entry to potential competitors. However, no assurance is given that the Group will be able to maintain its existing market share in the future.

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

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**(xiv) Threat of substitute products**

The availability of alternative staple food such as rice, yellow noodles and koay teow will impact the demand for Vermicelli. However, these products are not real threats to Vermicelli as most people consume Vermicelli and these products together or change from one product to another regularly. The longer shelf life of bihun against fresh yellow noodles and koay teow, cheaper pricing against rice and the fact that the KRB Group has built up its brand loyalty will continue to make its Vermicelli the preferred choice of food product and thus reduce the threat of substitute products. The Group also mitigates this risk by developing new products such as instant bihun and having a broader product range to minimise the impact of product substitution.

**(xv) Vulnerability to imports**

The local vermicelli industry faces competition from imported vermicelli. In 2002, the main import source for vermicelli products is Thailand, which accounted for 77.3% of total imports, followed by China at 22.6% and Hong Kong at 0.1%. (*Source: ACNielsen (Malaysia) Sdn Bhd*)

The Directors of KRB believe that the KRB Group is able to compete in the domestic market with its competitive pricing and the quality of its Vermicelli products, which is less brittle compared to those produced in Thailand. The Group believes that it is able to hedge itself against this risk by increasing its customer portfolio and constantly upgrading its technology, machinery and service. Notwithstanding this, there is no assurance that the Group's business will not be adversely affected by competition from imported vermicelli.

**(xvi) System Disruption**

The KRB Group did not experience any material disruption in business arising from security and system disruption in its factories which affected its operations in the past twelve months prior to the date of this Prospectus. The Directors do not foresee any disruption to the security and system of the KRB Group's operation which may materially affect the Group's output. In addition, the KRB Group has a regular maintenance schedule for its machinery and equipment. Notwithstanding this, there is no assurance that security and system disruption will not materially affect the KRB Group's business in the future.

**(xvii) Environmental Concern**

The Directors of KRB believe that the Group's existing operations have presently complied with the relevant regulations governing environmental concerns and matters within Malaysia. Notwithstanding the above, there is no assurance that the operations and performance of the Group will not be adversely affected should the Government change the relevant regulations which would result in the Group incurring additional costs for compliance thereof, including but not limited to varying its operating procedures and/or acquiring new production techniques or facilities.

**(xviii) Dependence on Foreign Labour**

In Malaysia, employment of foreign workers is allowed in the construction, plantation, service and manufacturing sectors. A substantial number of the Group's factory workers are foreigners whose employment in Malaysia is governed and authorised by the Government's immigration department.

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

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As at 31 December 2003, the Group has a total of 112 foreign workers. To-date, shortage of foreign labour has never been a major issue and has not impeded the Group's business growth or interrupted its operations. However, there is no assurance that any changes to current immigration rules and policies adopted by the Government will not have any adverse impact on the Group's labour force.

Further information on the Group's employees is set out in Section 4.4.15 of this Prospectus.

**(xix) Disclosure Regarding Forward Looking Statements**

This Prospectus contains forward-looking statements including the consolidated profit estimate and forecast for the FYE 31 December 2003 and FYE 31 December 2004 respectively for KRB. Such forward-looking statements are based on assumptions which the Directors of KRB consider to be reasonable but which nevertheless are subject to uncertainties and contingencies. Due to the subjective judgements and inherent uncertainties of forward-looking statements and because events and circumstances frequently do not occur as expected, there can be no assurance that the forward-looking statements contained herein will be realised and actual results may be materially different than those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forward-looking statements, in particular the consolidated profit estimate and forecast that are contained herein.

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