

4. INFORMATION ON THE KRB GROUP

4.1 Incorporation and History

KRB was incorporated in Malaysia on 20 June 2002 as a public limited company under the Act. The authorised share capital of KRB is RM50,000,000 comprising 100,000,000 Shares, of which 68,000,000 Shares have been issued and fully paid-up. The principal activity of KRB is that of an investment holding company whilst its subsidiaries are/will be principally involved in the manufacturing and marketing of vermicelli.

The history of the KRB Group begun when Ang Cho Teing, one of the Promoters of KRB, started a vermicelli manufacturing factory in Tasek Gelugor under a sole proprietorship trading under the name of Bersatu Kilang Bihun in 1984. On 15 September 1988, in order to corporatise the business for future expansion purposes, KBB was incorporated to take over the business of Bersatu Kilang Bihun.

As part of the KRB Group's diversification plans, BBFM and KBBEM were incorporated on 23 December 2000 and 18 April 2001 respectively.

KRB is the investment holding vehicle for its subsidiaries that are/will be involved in the manufacturing and marketing of vermicelli. KBBEM, which commenced operation in December 2002 from its newly established base in Sibu, Sarawak, provides the KRB Group with a manufacturing and marketing unit to cater for consumers in Sabah and Sarawak and cross-border trade with Indonesia and Brunei. With the forecast increase in turnover of the Group, BBFM, which is currently dormant, will be used in the future as a marketing arm to market, service and distribute the KRB Group's products as well as own the Group's brand names.

The details of the KRB Group are summarised below: -

Company	Date and Place of Incorporation	Issued and paid-up share capital (RM)	Effective Equity Interest (%)	Principal Activities
KRB	20.6.2002 Malaysia	34,000,000	-	Investment holding company
Subsidiaries of KRB				
KBB	15.9.1988 Malaysia	17,441,860	100	Manufacturing and marketing of all types of vermicelli
BBFM	23.12.2000 Malaysia	2	100	Dormant
KBBEM	18.4.2001 Malaysia	300,000	100	Manufacturing and marketing of all types of vermicelli

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

4.2 Changes in Share Capital

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

Date of Allotment	No. of Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
20.6.2002	2	1.00	Subscribers' shares	2
1.10.2003	30,155,209	1.00	Acquisition of KBB	30,155,211
19.12.2003	3,844,789	1.00	Rights Issue	34,000,000
22.12.2003	68,000,000	0.50	Split of par value	34,000,000

4.3 Listing Scheme

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of KRB on the Second Board, the Company undertook a restructuring exercise involving the following: -

i) Acquisitions

a) Acquisition of KBB

The acquisition by KRB of 100% equity interest in KBB comprising 17,441,860 ordinary shares of RM1.00 each for a consideration of RM31,660,658, which was satisfied by the issuance of 30,155,209 new ordinary shares of RM1.00 each at an issue price of approximately RM1.05 per ordinary share of RM1.00 each. The consideration was arrived at based on the adjusted NTA of KBB as set out in section 9.3.1(a)(i).

Name of Vendor	No. of shares held in KBB	%	Purchase Consideration (RM)	No. of shares issued
Ang Cho Teing	7,530,824 ¹	43.18	13,677,404	13,020,032 ²
BPIMB	3,488,372	20.00	6,332,132	6,031,042
Tai Chok Ping	1,882,705	10.79	3,419,351	3,255,006
Saffie bin Bakar	922,642	5.29	1,678,015	1,595,154
Ang Chor Teng	872,063	5.00	1,583,033	1,507,709
So Lic Jong	872,063	5.00	1,583,033	1,507,709
Rithauddin Hussein Jamalattiff bin Jamaluddin	821,482	4.71	1,488,051	1,420,259
Azlin bin Khalid	615,677	3.53	1,108,123	1,064,443
Ahmad Kamarudin bin Ismail	436,032	2.50	791,516	753,855
	17,441,860	100.00	31,660,658	30,155,209

Notes:

- Inclusive of 1,000,000 KBB shares of RM1.00 each held through Maju Nominees (Tempatan) Sdn Bhd.
- Inclusive of 1,728,899 KRB shares of RM1.00 each held through Maju Nominees (Tempatan) Sdn Bhd.

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

b) Acquisition of KBBEM

The acquisition by KRB of the entire issued and paid-up share capital of KBBEM comprising of 300,000 ordinary shares of RM1.00 each for a cash consideration of RM292,955 from KBB. The consideration was arrived at based on the audited NTA of KBBEM as at 31 December 2001 of RM292,955.

c) Acquisition of BBFM

The acquisition by KRB of the entire issued and paid-up share capital of BBFM comprising of 2 ordinary shares of RM1.00 each for a cash consideration of RM2, being the investment cost of KBB in BBFM, from KBB.

ii) Rights Issue

Rights Issue of 3,844,789 new ordinary shares of RM1.00 each at par on the basis of 1,275 new ordinary shares of RM1.00 each for every 10,000 ordinary shares of RM1.00 each held subsequent to the Acquisitions.

The Rights Issue resulted in the issued and paid-up share capital of KRB being further increased from RM30,155,211 to RM34,000,000.

iii) Share Split

Pursuant to the Share Split, 34,000,000 ordinary shares of RM1.00 each in KRB upon completion of the Rights Issue were converted to 68,000,000 Shares.

iv) Public Issue

In conjunction with the Listing of KRB, the Company will implement a Public Issue of 12,000,000 new Shares at an Issue Price of RM0.90 per Share. The Public Issue is subject to the terms and conditions as set out in the Prospectus.

The 12,000,000 new Shares arising from the Public Issue will be allocated in the following manner:-

a) Malaysian Public

(i) 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

(ii) 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;

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

b) 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 form 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 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 paragraphs (a)(ii) and (b) 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 (a)(i). The Public Issue Shares under paragraph (a)(i) (including any Shares not subscribed for under paragraphs (a)(ii) and (b)), have been underwritten.

v) Listing

The Company will make an application to MSEC for the admission of KRB to the Official List and for the listing of and quotation for the enlarged issued and fully paid-up share capital of KRB of 80,000,000 Shares on the Second Board.

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4. INFORMATION ON THE KRB GROUP *(Cont'd)*

4.4 Business Overview

4.4.1 Principal Products and Markets

The KRB Group is principally engaged in the manufacturing of rice and sago mixed vermicelli. From the manufacturing process described in Section 4.4.3, a variety of products can be produced by the KRB Group, depending on the raw materials used and the length of the finished products, such as bihun and laksa.

The Directors of KRB believe that the KRB Group's vermicelli products are different from most other vermicelli products found in the market due to: -

- The unique mixture of rice and sago, which makes the vermicelli product less brittle, possess more tension and tastier;
- The focus on sago quality and a higher starch content which ensures that the vermicelli product is smoother; and
- The KRB Group's manufacturing technology which ensures consistency in the quality of vermicelli produced.

The Group predominantly caters to the domestic market with less than 1% sales for the export market. All the products produced for local consumption are sold to wholesalers and retailers.

The KRB Group owns 8 in-house brands domestically which are sold in most states in Malaysia.

The brands and the geographical areas that the KRB Group distributes to / sells in are as follows: -

- "Cap Fatima" – for Kedah, Penang, Perlis and Kuala Lumpur;
- "Cap Eka" – for the whole Peninsular of Malaysia;
- "Cap Laksa Bihun Eka" – for Kedah, Penang, Perak, Johor, Pahang and Kuala Lumpur;
- "Cap Lobak Merah" – for Kedah, Penang, Perak, Pahang, Kelantan and Johor;
- "Petrel Brand" – for Sabah, Sarawak, Penang and Kuala Lumpur;
- "Cap Rumah Melayu" – for Kuala Lumpur, Negeri Sembilan, Melaka, Terengganu, Kelantan and Pahang;
- "Cap Tiga Panah" – for Kedah, Penang and Perlis; and
- "Cap Cik Yang" – for Kedah, Penang and Perlis.

The KRB Group has also registered a trademark, Cap Lobak Merah, in Singapore.

The above brands contributed to 92.51% of the Group's sales for the FYE 31 December 2002 with the remaining 7.49% made up of OBM sales.

4.4.2 Production Facilities and Capacity

The KRB Group is an integrated Vermicelli manufacturer with its principal place of business at Plot 208, Phase 2, Kuala Ketil Industrial Estate, Baling, Kedah. This factory serves as the administrative office, sales office, production plant and storage facility of the KRB Group. Another factory of the KRB Group, situated at 2471, Tingkat Selamat, Kampung Selamat, 13300 Tasek Gelugor, Seberang Perai Utara, Penang is rented. The Group's factory in Sibul, Sarawak which is owned by the Group, commenced production in December 2002.

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

The details of the Group's factories are set out in the table below: -

Location & Address of Factories	Built-up area (Sq. m)	Actual output for 2003 (tonne)	Maximum Annual Capacity (tonne)¹	Remarks	Function
Plot 208, Phase 2, Kuala Ketil Industrial Estate, Baling, Kedah	9,990	31,900	44,460	Owned	Administration, sales, production and storage
2471, Tingkat Selamat, Kampung Selamat, 13300 Tasek Gelugor, Seberang Perai Utara, Penang	9,682	10,700	32,760	Rented	Production and storage
Lot 1178, Block 19 Seduan Land District, Sarawak	1,072	5,800	14,040	Owned	Production and storage
TOTAL	20,744	48,400	91,260		

Note:

1. *For the computation of maximum annual capacity, the assumption used is based on 3 working shifts per day for 26 working days per month. However, the Group does not run all production lines on 3 working shifts. The KRB Group schedules its operations based on market demand, inventory level and maintenance schedule of its machinery.*

The 2003 actual output for the KRB Group was 48,400 tonne. The Kuala Ketil factory is currently running on 3 shifts at an estimated 72% of annualised production capacity. The Group's ability to utilise only up to 75% of production capacity is due to constraints in certain production processes in manufacturing its vermicelli products, for example ageing, retort and drying processes.

The Group's investment in equipment and machinery has lowered the Group's production / operational costs. These investments have also increased the efficiency of the Group's production process and the quality of the Group's products. The Group's manufacturing facilities include plant and machinery for storage, mixing, steaming, forming, cutting, cooking, drying and packaging.

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

The Group's major machinery items are set out in the table below: -

Machinery	Plot 208, Phase 2, Kuala Ketil Industrial Estate, Baling, Kedah ["Plot 208"]	2471, Tingkat Selamat, Kampung Selamat, 13300 Tasek Gelugor, Seberang Perai Utara, Penang ["2471"]	Lot 1178, Block 19 Seduan Land District, Sarawak ["Lot 1178"]	Total	Country of origin	Total Cost (RM'000)			Total
						Plot 208	2471	Lot 1178	
Mixer and Kneader	6	5	3	14	Singapore	263	222	133	618
Forming Machines	8	7	3	18	Singapore	806.4	700	300	1,806.4
Steam Conveyor (cooker)	2	5	2	9	Singapore	57	140	60	257
Cooling Conveyor	1	1	-	2	Singapore	350	350	-	700
Dryer	8	5	2	15	Singapore	5,738.5	3,500	1,600	10,838.5
Packing Machine ¹	6	-	-	6	Germany, Japan and Taiwan	1,100	-	-	1,100
TOTAL	31	23	10	64		8,314.9	4,912	2,093	15,319.9

Note:

- There are/will be no packaging machines in 2471 and Lot 1178 as the packaging is done manually.

Production shift

The number of daily production shifts of eight hours each depends on the volume of orders obtained.

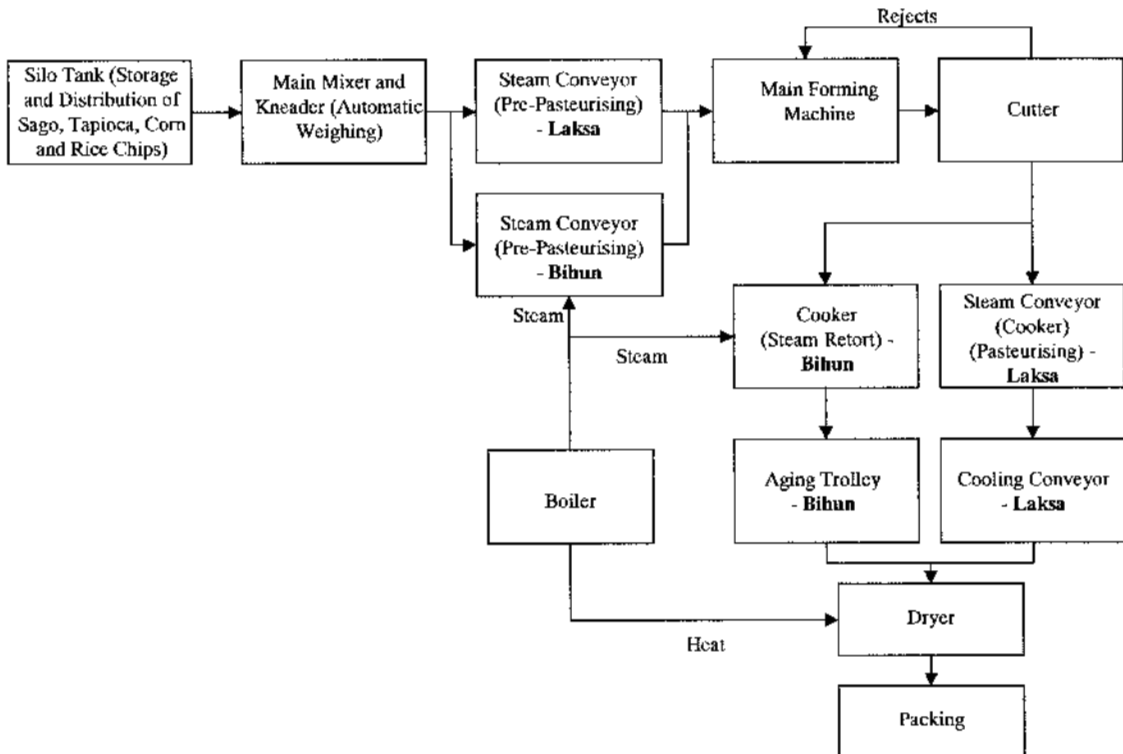
Presently, the number of daily productions shifts for the Group's factories are as follows: -

Factory	No. of Daily Production Shift(s)
Kuala Ketil factory	1 to 3
Tasek Gelugor factory	1 to 3
Sibu, Sarawak factory	1 to 2

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4.4.3 Manufacturing Process

The Group's vermicelli production process is described by the following manufacturing process flow chart: -



a) **Silo Tank**

Raw materials are delivered via lorry / container and are stored in silo tanks. The sago/tapioca/corn starch mixture silo tanks have a collective capacity of 458.5 tonnes while the rice chips silo tanks have a collective capacity of 520 tonnes. The silo tanks enable the KRB Group to store more raw materials as well as provide a hygienic storage place. When production commences, the raw materials are dispensed in the required quantity.

b) **Main Mixer and Kneader**

The rice dough / rice cake is mixed together with sago/corn/tapioca starch in the main mixer. The mixture is then kneaded to squeeze out the air in the mixture. This prevents brittleness of the bihun/laksa during gelatinization, which cures and thicken the thoroughly mixed raw materials.

c) **Steam Conveyor (Pre-Pasteurising)**

The mixture is then pre-cooked in the steam conveyor. Upon completion of the pasteurisation process, the mixture would be in paste form and ready for the extrusion process.

4. INFORMATION ON THE KRB GROUP *(Cont'd)*

d) **Main Forming Machine**

The mixture is extruded into thread form. This process forms the bihun/laksa into the required thickness and also squeezes out any air in the mixture.

e) **Cutter**

The extruded threads are hung on rotating stainless steel rods (hanger) and are cut into uniform length. The hangers are stacked into a trolley. Any bihun/laksa that does not conform to the necessary length is returned to the main forming machine to be re-extruded.

f) **Cooker (Sterilise)**

The bihun threads are cooked in the steam retort. Retorting is a cooking process to cook the formed bihun threads thoroughly before the ageing and dying process. For laksa, the threads are cooked in the steam conveyor.

g) **Boiler**

The boiler supplies heat to the dryer and steam to the steam conveyor to ensure optimal functioning of the relevant machinery. The Group's boiler is cost efficient as it utilises waste wood, which can be procured at a lower price compared to diesel.

h) **Ageing Trolley (for bihun) and Cooling Conveyor (for laksa)**

The ageing process allows the bihun/laksa to shrink slowly to prevent brittleness during gelatinization.

i) **Dryer**

The bihun and laksa are then dried. This slow drying process makes the bihun and laksa less brittle as well as ensures proper shrinkage for uniform thread formation. The dryer utilises heat from the boiler, hence reducing power requirement and saving costs.

j) **Packing**

The bihun/laksa is then packed into the desired sizes depending on whether it is for commercial or residential consumption. Automatic packing is used at some production lines, hence reducing the amount of labour required. The final product is then bundled and is ready for delivery.

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

4.4.4 Food Safety and Quality Control ("FSQC")

Food producers are encouraged by the Government to adopt and implement HACCP. GMP is a prerequisite to achieving HACCP certification. At the KRB Group, quality is a company-wide commitment and is the key to customer satisfaction. The Group recognises that quality is essential, not only for promoting public health, but also in enhancing the KRB Group's reputation as a vermicelli manufacturer that produces safe and good quality products. The Group uses carefully monitored quality procedures at all production stages to ensure that the end product meets the most stringent of customer demands.

Sulphur dioxide (SO₂) is used in the vermicelli manufacturing process to preserve and maintain the shelf life of vermicelli. Under Government Gazette P(U)A 421 Food (Amendment) (No.4) Regulations 2000 made pursuant to the Food Act 1983, the permitted use of SO₂ in pasta should not exceed 200 mg/kg.

KBB was previously fined 4 times for exceeding the permitted limit on the use of SO₂ in its products under the Food Regulations 1985. In order to ensure that there will not be any recurrence of these incidents, the KRB Group has adopted and implemented the HACCP system which *inter-alia*, sets standards on the usage of food preservatives and other food safety controls. The implementation of the HACCP system enables the KRB Group to comply with existing legislations on food manufacturing. The Group obtained HACCP certification for its Kuala Ketil and Sibu factories on 13 September 2002 and 29 August 2003 respectively.

The table below sets out some of the KRB Group's FSQC instruments and their functions: -

FSQC Instrument	Description/Function
Whiteness Meter	Measure the whiteness of finished goods
Balance	Measure weight
Viscosity Meter	Measure the viscosity of raw materials and finished goods
Colony Count	Count the number of bacteria colony
Oven	Dry the vermicelli for FSQC check
Incubator	Grow bacteria, yeast and mould
Microscope	Observe microscopic organisms
Refrigerator	Chemical and test kit storage
Pertifilm Aerobic count	Medium used for TPC count
Pertifilm E-coli count	Medium used for E-coli count
Pertifilm Coliform count	Medium used for Coliform count
Pertifilm Yeast and Mould count	Medium used for yeast and mould count
Sulphite test strips	Measure SO ₂ content
Moisture analyser	Measure moisture content
Water distiller	Produce distilled water for microbiology analysis
Protein analyser	Analyse protein
Hot plate stirrer	Stir chemical solution
Iron test kit	Analyse iron

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

The KRB Group spent RM160,000 in 2002 on testing equipment and the training of FSQC personnel. As of 31 December 2003, an additional RM227,000 was spent to acquire more testing equipment and to train new FSQC personnel.

The FSQC team consists of 7 key members and is headed by Ang Chor Teng, Goh Wan Chun and Ng Kim Sing @ Ng Hok Seng. The FSQC team is assisted by Leong Khoon Huat, the Quality and Food Safety Adviser and reports to Ang Cho Teing (Group Managing Director). The FSQC team was set up, *inter alia*, to:

- ensure that all Vermicelli products produced are of standards which comply with the requirements prescribed under the Food Act 1983 and the Food Regulations 1985 applicable to the products produced by the KRB Group;
- approve quality control procedures and controls;
- evaluate the effectiveness of quality control procedures and controls; and
- ensure that quality control is strictly observed throughout the production process including without limitation observation of incoming inspection procedures (inspection of raw materials before being processed) and in-process inspection and test procedures (inspection of finished goods before despatch).

The FSQC team also conducts various types of random tests on its Vermicelli products for brittleness, whiteness and air bubbles, twice a day. Furthermore, as part of the FSQC process, samples of Vermicelli products are prepared in cooked form to assess its quality.

There are various FSQC procedures conducted at the different production stages, from raw material supplies to production process to packaging, which are described in detail as follows: -

Production Stages	FSQC Procedures
Storage Department	Prior to production, material quality process audit will be carried out on every batch of raw materials where samples are taken from the rice chips, tapioca starch, sago starch and corn starch to ensure that they meet the criteria for whiteness, moisture content, TPC, SO ₂ and other FSQC measurements. Any material that does not meet the required standard is returned to the supplier.
Mixing Department	Upon completion of the mixing process, samples are taken to measure acidity ("pH"), viscosity and SO ₂ . If the SO ₂ requirement is not met, the mixture will be rejected. If other measurements, e.g. pH and viscosity do not meet the requirements, the mixture will be closely monitored and if required, sent back to the start of the mixing process.
Drying Department	Temperature inspection is carried out hourly on the machines by FSQC staff. After the drying process, the vermicelli is re-inspected to measure whiteness, moisture content, softness, protein content, TPC, yeast, mould counting and air bubbles to prevent brittleness. If the FSQC requirements are not met, the vermicelli is sent back to the Mixing Department for recycling.
Packing Department	Subsequent to the final packing into plastic bags, the packaging is checked for proper marking and shipping details. Random checks are also carried out after packing for the construction, overall appearance, and other buyer requirements such as correct packaging.

4. INFORMATION ON THE KRB GROUP (*Cont'd*)

4.4.5 Environment Concern

In the manufacturing of its Vermicelli products, the KRB Group takes cognisance that the environment and general surroundings of its factories should not be damaged or polluted. The KRB Group has installed various water treatment plants in its production facilities to ensure that all the discharge arising from the manufacturing process of its Vermicelli products are disposed appropriately. The KRB Group has in place an Environmental Control Committee (“ECC”), which currently consists of Ang Chor Teng, Ang Lay Seang and Lim Lee Eng. The ECC reports directly to Ang Cho Teing (Group Managing Director) and is assisted by KRB’s present external consultant, Euro Chemo-Pharma Sdn Bhd.

The ECC team was set up, *inter alia*, to:

- ensure that factories of the KRB Group comply with the effluent discharge standards prescribed under the Environmental Quality Act 1974;
- incorporate into the factories appropriate abatement and mitigating measures; and
- evaluate the effectiveness of the abatement and mitigating measures.

4.4.6 Market Demand and Market Share

Demand for vermicelli is believed to be generally stable as the product is considered a staple food. The Directors of KRB believe that the Group is one of the market leaders for the meehon, noodles and related products sectors in Malaysia.

The Directors of KRB believe that the major factors that impact demand for its Vermicelli products include economic stability, population growth, product substitution, government legislation and elasticity of demand.

i) Economic stability

During economic downturns, consumers tend to choose quality products that are more value for money. As bihun can be considered a staple food consumed by most Malaysians, an economic slowdown will not materially impact the consumption of bihun.

ii) Population growth

The continued growth of the world population and in particular the Malaysian population will increase the consumption of vermicelli generally and of staple food such as bihun.

iii) Product substitution

The availability of alternative staple food such as rice, yellow noodles and koay teow will impact the demand for Vermicelli products. 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 some Vermicelli products such as bihun as against fresh yellow noodles and koay teow, cheaper pricing of bihun against rice and the fact that the KRB Group has built up its brand loyalty will continue to make its Vermicelli products 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.

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iv) Government legislation

One of the main raw materials used in the production of Vermicelli is rice chips. The supply and prices of rice in Malaysia is currently governed by the Control of Paddy and Rice Act, 1974 to ensure a stable price and adequate supply of rice for the nation. Policy changes in the Control of Paddy and Rice Act, 1974 may cause fluctuation in the supply and prices of rice and this may shift the demand for other staple food such as vermicelli. Through the KRB Group's state-of-the-art production facilities and the experience and expertise of the Group's personnel, the Group is able to mitigate this risk by changing its raw materials mix to mitigate an increase in the price of a specific raw material as well as passing on certain cost increase to consumers.

v) Elasticity of demand

The market demand for vermicelli can be linked to several factors including consumer tastes, income levels, availability of other products and the number of consumers in the market.

The demand for the Group's products fall into the inelastic category due to several factors: -

- a) Demand for the Group's products did not drop during the Asian Financial Crisis (1997 – 1998) due to the high quality and reasonable prices; and
- b) The nature of bihun as a staple product.

(Source: ACNielsen (Malaysia) Sdn Bhd Report)

Since the commencement of operation in 1984 as a sole proprietorship, the Promoters have put in place growth strategies to counter these risks in the 19 years that it has been in business. In order to generate demand for the Group's products, the Group's priority in terms of expansion would be the mass market of Asian countries, where consumers are familiar with vermicelli as an alternative staple food. These include exporting to new destinations such as Thailand in the medium term. In the longer-term, the KRB Group plans to expand into the Philippines as well as European Union and US. The management of the KRB Group would ultimately like to have a foothold in every country that consumes Vermicelli products. This move would be beneficial to the KRB Group as it will provide the Group with a diversified earnings base and increased earnings potential.

In terms of local diversification plans, the Group's management has set up a factory in Sibul, Sarawak, which commenced commercial production in December 2002. With this, the KRB Group will be able to price its products competitively due to savings in transportation costs and hence, increase its market share in the East Malaysian market.

Based on the Census of Manufacturing Industries 2001, there are a total of 270 major players for the meehon, noodles and related products sub-sector in Malaysia. As set out in paragraph 1.3.1 of the Executive Summary of the Independent Market Research Report (set out in Section 12 of this Prospectus), the KRB Group's estimated market share size is approximately 10 times larger than the industry average market share size in the meehon, noodles and related products sector. The Directors of KRB believe that its position in the market is a result of competitive pricing of the KRB Group's products as the Group is able to change its raw materials mix to take advantage of lower prices of certain raw materials.

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

Turnover and Profitability of Selected Integrated Vermicelli Manufacturers

Company Name	Ranking based on turnover	Turnover (RM'000)	PBT (RM'000)	Principal Activities
KRB Group	1	54,676 (31 December 2002)	8,032	Manufacturing and marketing of all types of vermicelli
Bernas Dominals Sdn Bhd ¹	2	36,489 ² (31 December 2001)	767	Manufacturing and trading of rice by-products
M'sian Vermicelli Manufacturers (Melaka) Sdn Bhd	3	8,531 (30 June 2002)	1,885	Manufacturing of rice vermicelli
Kilang Bihun Sam Hoe Sdn Bhd	4	5,218 (31 December 2002)	593	Manufacture and retailing of rice noodles

Source: KRB and various companies audited accounts

Notes:

1. Bernas Dominals Sdn Bhd is principally involved in the manufacturing and trading of rice by-products, which include vermicelli. As such, its turnover and PBT are not wholly attributable to vermicelli but provides an indication only.
2. Results for the FYE 31 December 2002 is unavailable.

4.4.7 Competitive Advantages

i) One of the Larger Market Player

As set out in paragraph 1.3.1 of the Executive Summary of the Independent Market Research Report (set out in Section 12 of this Prospectus), the KRB Group's estimated market share size is approximately 10 times larger than the industry average market share size in the mee-hoon, noodles and related products sector. As such, due to the KRB Group's position as one of Malaysia's leading Vermicelli manufacturers, the Directors of KRB believe that the Group has few significant local competitors in the same category. Further, the Group has invested in state-of-the-art machinery and product development, which will strengthen the Group's position in the vermicelli market and ultimately increase the Group's market share.

ii) HACCP Certification

In food manufacturing companies, including vermicelli, there is a trend to move away from government regulatory inspection to monitoring quality systems. Increasingly, these quality systems are being audited by third party certifying bodies such as the International Organisation for Standardisation ("ISO 9000") series and HACCP systems. The Group strongly believes in adhering to best manufacturing practices and in monitoring procedures at all production stages to ensure that the products are of a high quality.

The Group obtained the HACCP certification for its Kuala Ketil and Sibu factories on 13 September 2002 and 29 August 2003 respectively. The HACCP certification is beneficial to the Group and its customers, as with the HACCP system in place, corrective action can be implemented at critical control points, which is more effective than final product checking at the manufacturing or retail level.

4. INFORMATION ON THE KRB GROUP *(Cont'd)*

iii) **Competitive Pricing**

As with all manufacturing companies, the ability to price competitively is a major deterrent to the proliferation of new set-ups.

The Directors of KRB believe that the Group is able to price its products competitively as: -

- (i) the Group is able to change its raw materials mix/composition to mitigate to a certain degree the increase in the price of a specific raw material;
- (ii) the Group purchases its raw materials in bulk to obtain better pricing; and
- (iii) the Group uses state-of-the-art machinery to reduce cost and dependency of labour and also to reduce raw material wastage during the production process.

iv) **High Product Quality**

The Group carries out product development through its product development team led by its Production Manager, Ng Kim Sing @ Ng Hok Seng to meet the quality expectation of its customers and to achieve customer loyalty. Quality excellence forms an important part of the Group's business objectives. Through the product development activities, the Group has managed to produce new products such as instant bihun. Currently, the Group is undertaking product development activities to develop healthier and more nutritious Vermicelli products made with brown rice, tomato, carrot, yam etc.

The KRB Group views technology as a vital part of its growth strategy in the vermicelli industry and the Group has invested in state-of-the-art production machinery (as described in Sections 4.4.2 and 4.4.3). The machinery used by the Group is able to cater to changes in the raw material mixture to produce different kinds of Vermicelli products. This enables the Group to use the same equipment to manufacture new products created by the product development team.

v) **Established Brand Names**

The KRB Group has established itself in the marketplace as an integrated vermicelli manufacturer. All the products manufactured by the Group and marketed under different brands owned by the Group are developed in-house, except for 7.49% (for the FYE 31 December 2002) of the Group's products which are sold to others and not marketed under brands owned by the Group.

The brands that the KRB Group have established and developed over its 19 years of operation are set out in Section 4.4.1. Through the years, the KRB Group has built up its brand loyalty and established a wide customer base.

4.4.8 Sources and Availability of Raw Materials

Raw materials such as rice chips and sago starch that contribute more than 10% of the KRB Group's annual total purchases, are supplied locally. The Group sources its raw materials both locally as well as from overseas. However, the bulk of the KRB Group's purchases are sourced from local suppliers. Overseas suppliers constitute less than 3% of total raw materials required by the Group.

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

The KRB Group's top ten suppliers (based on the purchases for the FYE 31 December 2002) contributed 71% of the Group's total purchases for the FYE 31 December 2002:

Supplier	Length of Relationship (Years)	% of contribution to the Group's total purchases for the FYE 31 December 2002
A.M.N. Enterprise	5	11
Jasmine Rice Mill (Tunjang) Sdn. Bhd.	4	10
Thye Huat Chan Sdn. Bhd.	15	8
Bernas Feedstuff Sdn. Bhd.	3	7
Zero Cool Sdn. Bhd.	2	7
Chop Yang Huat	15	7
Chin Soon Huat Sdn. Bhd.	6	6
Teo Hong Co.	4	5
Swee Hin Chan Co. Sdn. Bhd.	4	5
Choo Seng Rice Mill	15	5
Total		71

The Group has a large supplier base of approximately 40 suppliers as the Group has a practice of having approximately 10 suppliers for each of its important raw materials.

The KRB Group has an average relationship of 7 years with its top ten suppliers (based on the purchases for the FYE 31 December 2002).

Local raw materials are preferred as they can be easily obtained. Only certain types of raw materials such as corn starch are imported. In the event that local supplies run low or better quality raw materials are required, the KRB Group would source the required raw material from other countries, for example corn starch from China.

Normally, before any purchase order is issued, the KRB Group will estimate the quantity and type of materials needed to cater to existing as well as expected production demand. When the final bill of materials have been prepared, the KRB Group will arrange the delivery schedule, which is approximately 5 working days, with the respective suppliers to ensure continuous supply of raw materials throughout the production process. The KRB Group has good working relationships with its suppliers.

Review of Suppliers

To ensure a constant and reliable supply of raw materials, the Group continuously reviews its existing suppliers based on the quality of the raw material supplied, the punctuality of delivery, trustworthiness and commitment. For a new supplier to be included in the Group's suppliers' list, the supplier will have to provide a raw material sample for testing. If it is of acceptable quality, the supplier would be asked to provide a quotation for the Group's consideration. With this process, the KRB Group is able to maintain its product pricing, avoid stock shortages and respond to unforeseen supplies disruption promptly.

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

4.4.9 Distribution Network

Being in a competitive business, the KRB Group emphasises on high quality products at competitive prices and excellent customer service to increase sales and customer loyalty. These are the Group's marketing strategy to retain and attract customers since it commenced operations in 1984.

The KRB Group has 4 main warehouses in Peninsular Malaysia to distribute its products. These warehouses, with the exception of the Kajang warehouse which is owned by the KRB Group, are rented and are located at:

- Ampang, Selangor
- Kajang, Selangor
- Simpang Renggam, Johor
- Semambu Industrial Estate, Kuantan, Pahang

The KRB Group normally delivers its products directly to the warehouses via van / lorry from Penang for future orders or customers collection. However, for large orders and orders within the northern region of Peninsular Malaysia, the delivery is made directly from the factory to the customers' premises. The transportation time to the Group's warehouses is approximately half a day and should the need arises, the KRB Group can easily resupply the warehouses from its factories.

From these warehouses, the KRB Group distributes its products to local wholesalers and retailers via land.

4.4.10 Major Customers

The KRB Group has a diversified customer base, ranging from local wholesalers to retailers. The Vermicelli industry is a stable industry as vermicelli is a staple diet. Based on the proforma consolidated sales for the FYE 31 December 2002, the KRB Group's top ten customers are as follows:

Customer	Length of Relationship (Years)	% of contribution to the Group's total sales for the FYE 31 December 2002
Ng Chang Seng	11	5.4
Eng Hong Warehouse	16	4.8
Pangco Jaya Trading Co.	16	4.6
Aun Huat Trading Co.	16	4.6
Hin Aun	16	4.5
Neo Joo Huat Sdn. Bhd.	15	4.5
Syarikat Keong Lye Huat	16	4.4
Chop Hai Hin	16	4.4
Soon Yik Chan Sdn. Bhd.	9	4.1
Lean Lee Heng	11	3.8
Total		45.1

As at 31 December 2003, the KRB Group has approximately 800 customers collectively.

The KRB Group does not significantly depend on any single customer for its revenue source. Furthermore, the Group is continuously seeking new buyers for its products through overseas selling trips as well as increasing its product range to broaden its customer base.

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

4.4.11 Trademarks

The Group, through KBB, owns 9 registered trademarks in Malaysia and 1 registered trademark in Singapore as set out below: -

No.	Trademark	Trademark No.	Products	Class	Expiry Date
1	Cap Fatima	88/07129	Vermicelli	30	22.12.2009
2	Cap Eka	89/00217	Vermicelli	30	12.01.2006
3	Cap Laksa Bihun Eka	96003258	Vermicelli, rice noodle	30	29.03.2013
4	Cap Lobak Merah	97009497	Vermicelli, rice vermicelli	30	12.07.2004
5	Petrel Brand	95013749	Rice vermicelli	30	22.12.2012
6	Petrel Brand	95013748	Rice vermicelli	30	22.12.2012
7	Cap Rumah Melayu	89/04170	Vermicelli	30	14.07.2010
8	Cap Tiga Panah	97009496	Vermicelli, rice vermicelli	30	12.07.2004
9	Cap Cik Yang	93001521	Laksa and meehoon	30	11.03.2010
10	Cap Lobak Merah *	T01/04236D	Vermicelli, rice vermicelli	30	29.03.2011

Note:

* Registered in Singapore.

4.4.12 Approval, Major Licences and Permits

The KRB Group has three manufacturing licences issued by the MITI. The Group's Kuala Ketil factory has a "HALAL" Certificate of Authentication issued by the Islamic Development Department of Malaysia.

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

The licences and permits possessed by the Group are as follows: -

Authority	Issued by	Company	Issue Date	Equity conditions	Status of Compliance
Manufacturing Licence No. A 011218 for rice vermicelli and laksa products at 2471, Kampung Selamat, 13300 Tasek Gelugor	MITI	KBB	24.02.98	All the shares in KBB must be held by Malaysians and at least 20% of the equity of KBB shall be held by Bumiputera	Met
Manufacturing Licence No. A012533 for sago-based food products at Plot 208, Phase 2, Kuala Ketil Industrial Estate, Mukim Tawar, Kuala Ketil, Daerah Baling, Kedah Darul Aman	MITI	KBB	31.01.01	All the shares in KBB must be held by Malaysians and at least 20% of the equity of KBB shall be held by Bumiputera	Met
Manufacturing Licence No. A020938 for sago-based food products at Lot 1178 Block 19 Seduan Land District Upper Lanang Industries Estate, Sibul, Sarawak	MITI	KBBEM	15.01.03	-	-
Lesen untuk Kilang Bihun No.005677	Majlis Perbandaran Seberang Perai	KBB	25.02.03	-	-
Certificate of Fitness for Occupation	Majlis Daerah Baling, Kedah Darulaman	KBB	27.11.01	-	-
Occupation Certificate No. 159/94	Sibu Municipal Council	KBBEM	14.07.94	-	-
Lesen Borong No: 2393	Bahagian Kawalselia Padi dan Beras Kementerian Pertanian	KBB	26.12.01	-	-
Lesen Borong No: 0552	Bahagian Kawalselia Padi dan Beras Kementrian Pertanian	KBB	29.09.97	-	-
Lesen Borong No: 2451	Bahagian Kawalselia Padi dan Beras Kementerian Pertanian	KBBEM	02.12.02	-	-
Certificate of Authentication bearing Serial No. 007803 for the product "Bihun, Laksa, Mec"	Islamic Development Department of Malaysia	KBB	June 2003	-	-
Free Sale Certificate (for export purposes only) bearing Serial No. 100086/FSC02	Food Quality Control Division, Ministry of Health Malaysia	KBB	07.05.02	-	-
Lesen Iklan T/Cahaya luas antara 10.01 – 11 m2; Gudang: Keluasan Kurang 100m/p; kilang mi, meeoh / kocyteow; semua perdagangan agen tempatan, perjalanan, perumahan	Majlis Daerah Baling	KBB	23.02.03	-	-

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

Authority	Issued by	Company	Issue Date	Equity conditions	Status of Compliance
CEPT for the export of vermicelli to ASEAN countries for bihun Cap Burung Punai/bihun Cap Orang Siam/Cap Fatima/Cap Lobak Merah/Cap Burung Layang-layang	MITI	KBB	28.03.02	-	-
Persetujuan Pendaftaran No : PO.01.02.51.250.PKP4/ML/04/02/558 .ODS for "bihun" product bearing brand name "FATIMA" with Registration No. ML227401001164	Badan Pengawas Obat Dan Makanan, Republik Indonesia	KBB	17.04.02	-	-
Persetujuan Pendaftaran No : PO.01.02.51.251.PKP4/ML/04/02/560 .ODS for "bihun" product bearing brand name "CAP BURUNG PUNAI" with Registration No. ML227401002164	Badan Pengawas Obat Dan Makanan, Republik Indonesia	KBB	17.04.02	-	-
Persetujuan Pendaftaran No : PO.01.02.51.252.PKP4/ML/04/02/559 .ODS for "bihun" product bearing brand name "BURONG RAYANG RAYANG BERSATU" with Registration No. ML227401003164	Badan Pengawas Obat Dan Makanan, Republik Indonesia	KBB	17.04.02	-	-
Persetujuan Pendaftaran No : PO.01.02.51.253.PKP4/ML/04/02/557 .ODS for "bihun" product bearing brand name "CAP ORANG SIAM" with Registration No. ML227401004164	Badan Pengawas Obat Dan Makanan, Republik Indonesia	KBB	17.04.02	-	-
Business licence No.717602 for manufacturer of foodstuffs and noodles	Timbalan Pemungut Lesen Perdagangan, Sibul	KBBEM	18.04.03	-	-
HACCP System Certificate of Registration No. 2013	Sci-Qual International Pty Ltd	KBB	13.09.02	-	-
HACCP System Certificate of Registration No. 2016	Sci-Qual International Pty Ltd	KBBEM	29.08.03	-	-

4.4.13 Government Legislation

Save for the normal laws applicable to the conduct of business in Malaysia as described hereafter, there are currently no specific regulatory requirements that are applicable to the vermicelli manufacturing industry. However, being a sub-sector of the larger manufacturing industry, Government incentives and general guidelines for the entire industry do apply. There has been increased emphasis on product development and quality enhancements in preparation for AFTA.

The KRB Group has embarked on the modernisation of its production process to increase its production capacity and efficiency in line with Government policies on industrialisation. This can be seen from the Group's investments in advanced automated machinery purchased from Singapore, Germany, Japan and Taiwan. The Group also conducts product development activities in each manufacturing process.

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

The following general regulations and incentives apply to the vermicelli industry: -

a) Regulations

i) Control of Paddy and Rice Act 1974 ("Paddy and Rice Act")

The Paddy and Rice Act aims to control the prices and supply of paddy and rice domestically to ensure a stable price for both farmers and consumers. The Paddy and Rice Act also helps to ensure adequate supply of rice in any situation, especially during national emergencies. Through the Paddy and Rice Act, the KRB Group is ensured of a stable supply and reasonable prices for rice chips for its factories.

ii) Food Quality Control Division, Ministry of Health

To protect the public against health hazards and fraud in the preparation, sale and use of food, the Government established the Food Quality Control Division under the ambit of Ministry of Health, with five main objectives:

- to ensure food is processed, stored and handled in a sanitary manner;
- to ensure all food sold is:
 - free from contamination and non-permitted additives
 - in compliance with the required standards
 - labelled and advertised properly, adequately and not misleading;
- to ensure food imported into this country is safe and complies with the Food Act 1983 and the Food Regulations 1985;
- to ensure food exported from this country complies with the standards required by the importing country; and
- to ensure that the public receive adequate information regarding health aspects related to food.

iii) Packaging

According to government regulations, all labels on processed and packaged food products must contain the following information in English or Bahasa Malaysia: -

- A statement of shelf life or expiry date;
- A list of ingredients in descending order proportion by weight;
- If the item contains any animal product, a statement as to the presence of such animal product (beef, lard, gelatine etc); and
- The minimum net weight of the product.

Since the KRB Group's products are mainly for the domestic market, the labels on its products are often in Bahasa Malaysia and Mandarin and comply with the necessary regulations.

iv) International Standards, Regulations and Monitoring

The World Trade Organisation ("WTO") is the only international agency dealing with the rules of international trade. Its purpose is to help trade flow smoothly. Since its establishment in 1995, the WTO has been the negotiation forum to open markets for industries.

Manufacturers and retailers of processed foods, including vermicelli must comply with standards and regulations of the importing countries. The government of the importing country specifies the standards of composition, permitted ingredients and additives, agricultural residues levels and labelling provisions. These apply to all countries and are generally consistent with standards of the Codex Alimentarius Commission of the World Health Organisation.

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

v) **GMP**

The KRB Group's factories located in Kuala Ketil and Sibul adhere to GMP regulations, which are based on the "General Principles of Food Hygiene" used by food industries.

Some of the regulations are as follows: -

- Perform operations under clean, sanitary and orderly conditions;
- Effective cleaning of all surfaces;
- Prevent food contamination;
- Prevent the entry of pests and hazards that may adversely affect food safety; and
- Personnel must conform to hygienic practices while in contact with food, food processing equipment and packaging materials, to prevent contamination and to continuously produce safe food.

vi) **CEPT**

CEPT is an agreed effective preferential tariff to ASEAN, to be applied to goods originating from ASEAN member states under AFTA. AFTA targets the reduction of import tariffs among member states to between 0% and 5%.

The objectives of AFTA are to: -

- Stimulate intra and extra-regional trade, and to enhance the competitiveness of industrial performance of its member states; and
- Attract foreign direct investment flows.

All of the KRB Group's products fall under the 'vermicelli, others' category, specifically the Harmonized System ("HS") code of 1902.30.290 - "Vermicelli, others". As Malaysia imposes import tariff of 2% on this category, the KRB Group is essentially competing with imported vermicelli on an equal basis in Malaysia.

Save for Singapore and Brunei, which presently do not impose tariffs on the importation of vermicelli products and Cambodia which presently imposes a 15% tariff on rice vermicelli, other ASEAN member states presently impose import tariffs ranging from 0% to 5% on most vermicelli products under AFTA's CEPT programme. As such, the Directors of the KRB Group are of the view that the implementation of AFTA will not have any material impact on the KRB Group.

b) **Incentives for the Manufacturing Sector**

i) **Malaysia External Trade Development Corporation ("MATRADE")**

Companies involved in the manufacturing sector are given tax exemptions in the following areas: -

- Exemption of statutory income equivalent to 10% of the value of increased exports, if the goods exported attain at least a 30% value-added increase; and
- Exemption of statutory income equivalent to 15% of the value of increased exports, if the goods exported attain at least a 50% value-added increase.

Other exemptions provided by MATRADE are not related to the KRB Group's business.

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

ii) Other Government Incentives

There are 3 major incentives available to companies in the manufacturing sector, Pioneer Status, Investment Tax Allowance ("ITA") and Reinvestment Allowance.

In the case of the KRB Group, the following may apply: -

- Reinvestment Allowance, which allows companies that have at least 12 months of operational history to claim deductions on expenditure used for the expansion of production capacity, modernisation, upgrading and automation of production facilities and diversification into related products. Applications will be reviewed and approved by the Inland Revenue Board.
- Export Incentives – Double deduction for promotion of exports. Companies that export manufactured products are eligible to claim double deduction for the following expenses – overseas advertising, supply of free samples abroad, export market research, preparation of tenders for supply of goods overseas, approved MITI trade exhibitions, overseas travel fares / accommodation, cost of maintaining a sales office abroad and professional fees incurred in packaging design for exports.
- Industrial Building Allowance, which provides an allowance of 10% of the qualifying expenditure, for buildings used as warehouses for storing goods for export and re-exports.
- Training Incentives in the form of tax deductions for both pre-employment training and Human Resources Development Fund ("HRDF") approved training.
- Double Deduction on Export Credit Insurance Premiums - premium payments on export credit insurance are eligible for double deduction.
- Research & Development Incentives - Under the guidance of the Promotion of Investments Act 1986, companies can apply for ITA of 50% of the qualifying capital expenditure incurred within 10 years and the ITA can be utilised to offset against 70% of the statutory income in the year of assessment.
- Exemptions from import duties for direct raw materials used in the manufacture of products for both the export and domestic market are provided by MIDA.
- Exemptions from import duties and sales tax for machinery and equipment are available from MIDA.
- Pioneer Status – Partial exemption from the payment of income tax for 5 years is available from MIDA.
- Other incentives - Incentives for the use of information technology equipment and environmental protection equipment are also awarded.

(Source: ACNielsen (Malaysia) Sdn Bhd Report)

4.4.14 Product Development

The Group believes that innovation is one of the key factors that sets it apart from competitors, locally as well as overseas. Hence, product development activities are carried out to introduce new products that increase customer satisfaction with: -

- Enhance quality and durability of products; and
- Better taste.

The product development activities are also undertaken to shorten the production cycle and lower production and operational cost using new techniques and machinery.

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

The KRB Group's product development activities are led by Mr. Ng Kim Sing @ Ng Hok Seng, who has over 40 years of vermicelli production experience and has been with the Group since its inception. He is assisted by Mr. Ang Chor Teng, Mr. Ooi Wooi Him, Mr. Goh Wan Chun and Ms. Ang Lay Scang.

The product development team reports directly to Mr. Ang Cho Teing, the Group Managing Director. Meetings are held monthly to provide an update on the status of the Group's product development activities outlined at the beginning of the Group's financial year. However, the product development team also holds discussions as and when the need arises. According to the KRB Group's management, the Group has invested approximately RM175,000 in product development activities in the 3 FYE 31 December 2002 and an additional RM132,000 in the FYE 31 December 2003. The amounts spent on product development for the 3 FYEs 31 December 2002 represented less than 1% of the annual turnover of the respective financial years.

Under the team's product development initiatives, the Group has succeeded in the following: -

- **Continuously improving the quality and type of products**

The Group is able to offer unique quality vermicelli, which is less brittle, has more tension and tastier with its product development initiatives. In addition, with its innovativeness, the product development team has successfully developed a new variety of vermicelli product known as instant bihun. The product development for instant bihun was completed in May 2002 and the Group has commenced production of instant bihun in December 2002.

- **Process re-engineering from manual production lines to semi automatic production lines**

The Group also carries out product development in the technical and manufacturing aspect of its business to shorten the production cycle and lower production and operational cost using new techniques and machinery. In the early days when the Group started its operation, the production processes were almost all manually done. Throughout the years, the Group has sought methods to improve its production processes and purchased machines that will lower production and operational cost, as well as deliver quality products. Now, the Group's production process takes only approximately 24 hours, compared to 36 hours when it first commenced operations.

The following table provides some examples of the product development activities undertaken by the KRB Group.

Product Development activities	Status	Year initiated
Instant bihun	Completed	1998
Noodles (economy pack for hawkers)	In progress	2001
Health vermicelli	In progress	2002

4.4.15 Employees

As at 31 December 2003, the Group has 317 employees out of which 112 are foreign workers. None of the employees are members of any union. The KRB Group has not experienced any interruptions in its operation due to labour disputes. The management of the Group enjoys a cordial relationship with its employees. The KRB Group employs contract workers from time to time to assist mainly in its packaging division. As at 31 December 2003, there are 83 contract workers.

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

As at 31 December 2003, the Group has the following categories of employees: -

Category	Total
Executives and above	21
Technical and Supervisory	25
Clerical and Related Occupations	15
General and Factory Workers	256
Total	317

The KRB Group has a strong, reliable and long-serving team of senior management personnel. The senior management personnel have been with the Group for an average of 5 years, while at the technical and supervisory level, the average is 3 years.

The table below summarises the average number of years of service for the Group's employees: -

Category	Average Number of Years
Executives and above	5
Technical and Supervisory	3
Clerical and related occupations	2
General and Factory Workers	2

Recognising human resource development as an important factor in the Group's growth plan, the Group sends its employees for training to ensure that all employees are well trained and equipped to perform their daily duties. Programmes are usually conducted internally via classroom-based training in the Group's training room and on-the-job training.

The training programmes undertaken by the Group from 1 January 2000 up to 31 December 2003 are as follows: -

Participants	Course Description
Management	<ul style="list-style-type: none"> • HACCP System - To manage the safety aspects of the production, processing, distribution and preparation of food • Investment Seminar in the Manufacturing Sector • Understand Employee Provident Fund ("EPF") and Social Security Organisation ("SOCSO") law, overview of their principles and their implementation at workplace • Tax audit seminar

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

Participants	Course Description
	<ul style="list-style-type: none"> • Understanding of the “Occupational Safety & Health Regulation 1986” guidelines and the legal requirement, safety techniques and relevant standards of the Safety and Health Committee • Advanced food industry mentoring programme • Preparation of proposal paper for loan application and financing opportunities for Small and Medium Industries (“SMIs”) • Understanding of administration; payroll and marketing system • Understanding and practising of personnel hygiene • Understanding of rice vermicelli manufacturing using technologies of machinery and equipments
Technical and supervisory	<ul style="list-style-type: none"> • HACCP System - To manage the safety aspects of the production, processing, distribution and preparation of food • Understanding of the “Occupational Safety & Health Regulation 1986” guidelines and the legal requirement, safety techniques and relevant standards of the Safety and Health Committee • Understanding of administration; payroll and marketing system • Understanding and practising of personnel hygiene • Understanding of rice vermicelli manufacturing using technologies of machinery and equipments
Clerical and general workers	<ul style="list-style-type: none"> • HACCP System - To manage the safety aspects of the production, processing, distribution and preparation of food • Understanding of the “Occupational Safety & Health Regulation 1986” guidelines and the legal requirement, safety techniques and relevant standards of the Safety and Health Committee • Understanding and practising of personnel hygiene

4.4.16 Interruption/Disruption in Business

The Group did not experience any disruption in business having any significant and adverse effect on its operations at any time for the past 12 months prior to the date of this Prospectus.

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

4.5 Subsidiaries of KRB

4.5.1 KBB

(i) History and Business

KBB was incorporated on 15 September 1988 in Malaysia as a private limited company under the Act. KBB is principally involved in the manufacturing and marketing of all types of vermicelli.

(ii) Share Capital

The present authorised share capital of KBB is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM17,441,860 comprising 17,441,860 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of ordinary shares	Par Value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
15.09.1988	2	1.00	Subscribers' shares	2
01.06.1989	179,998	1.00	Take over of partnership	180,000
11.07.1991	150,000	1.00	Cash	330,000
19.09.1996	170,000	1.00	Cash	500,000
02.02.1998	500,000	1.00	Bonus issue	1,000,000
10.10.1998	1,000,000	1.00	Cash	2,000,000
06.11.1998	4,000,000	1.00	Bonus issue	6,000,000
14.08.2000	6,000,000	1.00	Bonus issue	12,000,000
14.12.2001	3,000,000	1.00	Bonus issue	15,000,000
16.05.2002	2,441,860	1.00	Cash	17,441,860

(iii) Profit and Dividend Record

Please refer to Section 10 for details of KBB's profit and dividend track record.

(iv) Substantial Shareholder

KBB is a wholly-owned subsidiary of KRB. Please refer to Section 5 for information on KRB's shareholders.

(v) Subsidiary and associate company

KBB does not have any subsidiary and associate company.

4.5.2 BBFM

(i) History and Business

BBFM was incorporated on 23 December 2000 in Malaysia as a private limited company under the Act. BBFM is currently dormant.

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

(ii) Share Capital

The present authorised share capital of BBFM 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.

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

Date of Allotment	No. of ordinary shares	Par Value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
23.12.2000	2	1.00	Subscribers' shares	2

(iii) Profit and Dividend Record

Please refer to Section 10 for details of BBFM's profit and dividend track record.

(iv) Substantial Shareholder

BBFM is a wholly-owned subsidiary of KRB. Please refer to Section 5 for information on KRB's shareholders.

(v) Subsidiary and associate company

BBFM does not have any subsidiary and associate company.

4.5.3 KBBEM

(i) History and Business

KBBEM was incorporated on 18 April 2001 in Malaysia as a private limited company under the Act. KBBEM is principally involved in the manufacturing and marketing of all types of vermicelli.

KBBEM's factory which is located at Sibul, Sarawak, commenced operations on 2 December 2002. It is strategically located to source raw materials, sell and distribute the KRB Group's products in East Malaysia as well as benefiting from the cross-border trade with Indonesia and Brunei.

(ii) Share Capital

The present authorised share capital of KBBEM is RM500,000 comprising 500,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM300,000 comprising 300,000 ordinary shares of RM1.00 each.

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

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

Date of Allotment	No. of ordinary shares	Par Value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
18.04.2001	2	1.00	Subscribers' shares	2
08.10.2001	299,998	1.00	Cash	300,000

(iii) **Profit and Dividend Record**

Please refer to Section 10 for details of KBBEM's profit and dividend track record.

(iv) **Substantial Shareholder**

KBBEM is a wholly-owned subsidiary of KRB. Please refer to Section 5 for information on KRB's shareholders.

(v) **Subsidiary and associate company**

KBBEM does not have any subsidiary and associate company.

4.6 Industry Overview

4.6.1 The Malaysian Economy

After experiencing sluggish growth in 2001, the Malaysian economy rebounded in 2002. Higher growth in 2002 bolstered optimism for a stronger economic performance in 2003 in anticipation of an improved world economic outlook. The prospect for a global economic recovery was, however, affected by recent geopolitical developments, in particular the war in Iraq, sporadic incidences of militancy and outbreak of the Severe Acute Respiratory Syndrome (SARS). During the second quarter of 2003, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probably prolonged and widespread SARS epidemic that curtailed transport and tourism-related activities besides trade and investment flows.

Against this adverse global environment and concerns of further weakening of the already sluggish global economy, the Government has put in place a package of broad-base pro-growth measures in May 2003. The Government's proactive stimulus package, apart from providing immediate relief for the SARS-affected sectors, was to address structural and organisational issues towards sustaining economic growth in the medium and longer term. The strategic measures introduced boosted confidence necessary to stimulate domestic consumption and investment. In addition, the short war in Iraq and the quick containment of SARS provided the much-needed relief for the economy to ride over the difficult times and remain on track to a firmer growth trajectory.

Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented by the Government's proactive stimulus package, have helped to sustain high growth in the real GDP. After expanding 4.5% in the first half of 2003 and with prospects of sustained growth in the second half of 2003, the economy is set to achieve its targeted growth of 4.5% in 2003, higher than the 4.1% in 2002.

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

The economy is expected to be driven by stronger domestic demand reinforced by a modest pick-up in external demand in the second half of 2003. Exports will continue to be buoyed by global economic recovery and the upturn in electronics, especially in information technology-related products and equipment. On the domestic front, consumer spending is expected to continue to pick up, on account of favourable commodity prices, positive wealth effect from better stock market performance as well as stimulus packages introduced in May 2003. All sectors registered positive growth with manufacturing and services driving the economy.

(Source: Economic Report 2003/2004)

4.6.2 The Food Industry in Malaysia

Up to the present point, the food processing industry in Malaysia is still very much a domestic-oriented industry with minimal export of such products. The food industry is generally seen as an agro-based industry with strong backward linkages. However, this is slightly different in the Malaysian context. Aside from some exceptions such as processed fish products, cocoa manufacturing and canned pineapples, much of the food industry's basic raw materials are imported, such as wheat, raw sugar and dairy products. This dependence on imported raw materials has been and continues to be a major handicap.

The food processing industry covers a wide range of products. According to the 1998 Annual Survey of Manufacturing Industries, there were 3,176 establishments in the industry, employing 95,912 workers. This has decreased to 3,121 establishments but the number of workers has increased to 105,861 for the same survey in 2000. An estimated 80% of these were small establishments that came within the classification of "small scale or cottage industries". Based on the latest Census of Manufacturing Industries 2001, the number of establishments further declined to 3,018 establishments with the number of workers further increasing to 122,250.

Total food processing revenue had grown at an average rate of 8.9% over the last five years (1998-2002). In the past 20 years, the share of the food processing industry's output in relation to the country's total manufacturing output has been dwindling gradually from 8.5% in 1984 to less than 2.0% in 1998. This was due to the country's manufacturing sector becoming increasingly export-oriented. The food processing industry however, as mentioned earlier, still concentrates on the domestic market.

In terms of process technologies, the spectrum of technological sophistication is very wide-ranging from simple cottage-scaled to computer-controlled high tech operations. Except for few large multinational corporations and some locally listed companies, product development is still minimal.

Malaysian food processing industry

Year	Production Index for Food Factories	Growth %
1997	133.4	Not applicable
1998	130.1	-2.5
1999	153.4	17.9
2000	174.7	13.9
2001	187.2	7.2
2002	201.8	7.8
5 Years Average Growth Rate 1998 – 2002	Not applicable	8.9

(Source: ACNielsen (Malaysia) Sdn Bhd Report)

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

4.6.3 Vermicelli Industry

The Malaysian vermicelli manufacturing industry is a subsector of the meehon, noodles and related products ("meehon") sector, which in turn is a subsector of the food industry. The meehon sector is a niche industry, contributing approximately 1.3% to the total output of the food manufacturing industry.

There are about 270 meehon manufacturers in the country.

The vermicelli sector sustained a slight decline in output for the 3-year period between 1997 – 1999. The Asian Financial Crisis (1997 – 1998) and other global economic uncertainties are the major factors contributing to this drop. However, the sector recovered in 2000 in line with the economy.

In terms of average output per company, the industry saw an increase from RM1.61 million in 1997 to RM2.24 million in 2000. This increase is due to the reduction in the number of establishments, as can be seen from the analysis in the table below. The analysis also indicates that the food manufacturing industry has a higher average output per player, as compared to the vermicelli manufacturing sub-sector. The food manufacturing industry's average output per player grew from RM12.2 million per player in 1997 to RM15.1 million per player in 2000. The Group's average annual output from 1997 to 2000 amounted to RM20.39 million, far exceeding the food manufacturing and meehon industry norm.

Analysis of Gross Output by sector/ per player, and increase / decrease from 1997 to 2000

	1998 Annual Survey			2000 Annual Survey			Census of Manufacturing Industries 2001		
	No. of Players	Gross Output (RM' mil)	Average Output per player (RM' mil)	No. of Players	Gross Output (RM' mil)	Average Output per player (RM' mil)	No. of Players	Gross Output (RM' mil)	Average Output per player (RM' mil)
Meehon, Noodle and Related Products	314	507	1.61	299	506	1.69	270	604	2.24
Total Food Industry	3,176	38,826	12.2	3,121	50,658	16.2	3,018	45,574	15.1

Based on the 8MP and OPP3 projections for the manufacturing sector and the Government's efforts to improve the overall economy, it is expected that the vermicelli industry will continue to record positive growth rates from the year 2003 onwards, in line with the expected global economic recovery. Similarly, the government's continuous effort in promoting Malaysian made products in the global marketplace will further substantiate the overall industry growth for the vermicelli industry.

(Source: ACNielsen (Malaysia) Sdn Bhd Report)

4. INFORMATION ON THE KRB GROUP *(Cont'd)*

4.7 Future Plans, Strategies and Prospects

The Group aims to be the leading provider of Vermicelli products in Malaysia. In order to generate demand for the KRB Group's products, the Group's expansion priority would be the mass market of Asian countries, where consumers are familiar with vermicelli as a staple food. This include adding new distributors / wholesalers in Indonesia, Singapore and Brunei. In the medium and longer term, the KRB Group plans to expand into other Asian countries such as Thailand and the Philippines, the European Union and US. The management would ultimately like to have a foothold in every country that purchases vermicelli products. This would be beneficial to the KRB Group as it will provide the Group with a diversified earnings base and increased earnings potential.

In terms of local diversification plans, the Group's management has set up a factory in Sibu, Sarawak. The factory commenced commercial production in December 2002. With this, the KRB Group is able to price its products competitively and hence, increase its market share in the east Malaysian market as well as benefit from cross border-trade with Indonesia and Brunei.

The Group's strategy to move into additional geographical areas, thus expanding its local and export markets, also insures the Group against economic volatility. In addition, this prepares the Group for the onslaught of globalisation and liberalisation.

The Group's focus on product development activities, continuous production process improvement and consumer market research will enable the Group to respond quickly to any changes in consumer tastes. Its investments in new technology machinery will alleviate labour dependence and increase production efficiency. The Directors of KRB believe that the investment that the Group has undertaken to be at the technical vanguard of the Vermicelli industry has placed the Group one step ahead of its competitors. The Directors of KRB believe that this good reputation has increased the Group's profitability despite economic challenges.

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