3. RISK FACTORS

In evaluating an investment in the IPO Shares, prospective applicants should carefully consider all information contained in this Prospectus including but not limited to the general and specific risks of the following risk factors:-

(i) Business Risks

The Group is subject to certain risk inherent to the automotive industry. These may include shortage in skilled workforce, increase in cost of labour and operating cost, changes in general economic, business and credit conditions, and changes in government policies.

The Group has taken steps to mitigate the risks through continuous effort to maintain and source for skilled workers. The Group also embraces new technology to continuously improve its products and services to meet customers' demand and expectations. The Group also provides maintenance and after sales service to retain its customers.

(ii) Financial Risks

In terms of finance, the BKG Group has been profitable for the last five financial years. Based on past performances, the BKG Group has recorded financial growth and profitability. BKG Group relies partially on its internally generated profits to fund its growth and operations. This reduces its financing costs and enables it to increase its profitability.

For the financial year ended 31 December 2002 and for the 10 months period ended 31 October 2003, BKG Group's debt to equity ratio is 0.52 times and 0.63 times respectively. The average debt to equity ratio also gives BKG Group the capacity to borrow more if it requires. This 'extra' capacity provides the BKG Group with significant leeway to sustain the business during poor operating and economic conditions and ability to take on more debts for expansion if so desired.

As at 31 January 2004 (being the latest practicable date prior to the printing of this Prospectus), the Group utilises approximately 57.6% of its available banking facilities.

(iii) Availability of Raw Materials

As BKG Group is mainly in the Rebuilding and Reconditioning of Commercial Vehicles as well as Bodyworks, used auto parts and main components constitute the major raw materials purchased.

Used auto parts and main components represented 33.1% and 37.1% of the total raw material purchases of BKG Group for the financial year ended 31 December 2002 and for the 10 months period ended 31 October 2003 respectively. Approximately 1% of total parts and components purchased by the Group are imported. The parts and components were mainly imported from Singapore, China, Australia and Thailand.

The Malaysian Industrial Development Authority reported in February 2003 that there were about 300 companies manufacturing motor vehicle components in Malaysia, of which 232 companies are the vendors to Perusahaan Otomobil Nasional Berhad ("**Proton**") and 126 companies are of Perodua Manufacturing Sdn Bhd ("**Perodua**"). However, the locally produced components have relatively low net local content.

Several Malaysian automotive component parts manufacturers had established joint ventures in other ASEAN countries to cater for regional requirements. Parts manufacturers from other ASEAN countries have also established joint ventures in Malaysia.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

As there are ample sources of supply of parts and components locally with the exception of a small number of specific items, the threat in supply is minimised. To date, BKG Group has not encountered any major problems in sourcing parts, components and other raw materials from suppliers.

(iv) Foreign Operations/ Currency Risk

The impact of foreign exchange fluctuation is insignificant to BKG Group as most of the Group's transactions with its customers and suppliers are written in RM. This is because BKG Group primarily sells its products and sources its raw materials locally. However, with the Group's plans to further expand its coverage to the overseas market such as Bangladesh, Indonesia and Vietnam, the impact of foreign exchange fluctuation would likely to increase. The Group's future export sales will be denominated in US dollars. As such, the Group is exposed to the currency risk to a certain extent in the future. However, the risk is limited since the pegging of US dollar to RM was introduced in Malaysia. Nevertheless, there can be no assurance that the fixed exchange rate will not be adjusted or removed or will not have any material impact on the Group's financial performance in the future.

(v) Dependency on Licensing and Registrations

There are significant Government laws, regulations and policies which have impact on the Rebuilding of Commercial Vehicle Industry as set out in Section 4.2.5 of this Prospectus. The main regulatory framework for the Rebuilding of Commercial Vehicles is the issuance of:-

(1) Manufacturing licence by the Malaysian Industrial Development Authority and MITI; and

(2) Certificate of Recognition for Rebuilding Commercial Vehicles that enables the Rebuilt Commercial Vehicles to be registered under RTD for on-road usage.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

The activities of the BKG Group are governed by the various licences which are held by its subsidiaries as follows:-

(a) BKVI has been awarded the Certificate of Recognition for Rebuilding Commercial Vehicles. Generally, without a Certificate of Recognition for Rebuilding Commercial Vehicles, the Rebuilt Commercial Vehicles will not be registered by the RTD, thus will not be allowed to be operated on State and Federal Roads;

(b) BKVI has a manufacturing licence for the Reconditioning of heavy vehicles and machinery, trucks, buses and coach body building, fabrication of truck mounted lift cranes, fabrication of truck refrigeration systems and conversion of motor vehicles effective from 6 March 1998;

(c) BKVI has a manufacturing licence for the Reengineering and Reassembly of Used Commercial Vehicles effective from 6 July 2001;

(d) On 5 April 1997, BKVI has obtained a Workshop Registration licence with the RTD for the construction and technical modification of motor vehicles;

(e) On 24 July 2001, BKVI has been certified by the RTD for the Rebuilding of Commercial Vehicles. As at 31 January 2004 (being the latest practicable date prior to the printing of this Prospectus), based on the RTD, BKVI is the sole holder of such certification;

(f) On 9 September 1999, BKVI has obtained an approval from the RTD allowing the inspection of Rebuild Commercial Vehicles to be conducted by Puspakom; and

(g) BKVI has obtained a Second-hand Dealers Licence for activities involving the purchases and sales of used or second-handed motor vehicles. The licence was issued by the Chief Police Officer in Penang on 27 January 2004.

These licences and approvals impose stringent requirements on the registration and licensing processes. Any failure to meet such requirements may result in the withdrawal of these licences or restrictions on registration, which may have an adverse impact on the Group's operations. Nevertheless, the abovementioned licences held by BKG Group, except (g), are not subject to any renewal as long as conditions imposed are adhered to. However, the BKG Group has not experienced any problem with the relevant regulatory authorities and licensors over the years the Group is involved in the Rebuilding of Commercial Vehicles with regard to the abovementioned licences.

There is also no assurance that the licence which is subject to renewal held by the BKG Group will be renewed by the relevant authorities and licensors, or if it is renewed, that such renewal would be effected within the anticipated timeframe, which may affect the operations of the Group. However, the Group has not experienced any problem in renewing its licences with the relevant authorities and licensors and does not foresee any potential problem in renewing its existing licences when it becomes due.

(vi) Dependence on Directors, Key Management and Workers

The Group believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its existing Directors and key management. The Group will strive to continue attracting and retaining skilled personnel to support its business operation and has made efforts to train its staff. As a result of this, the Group has enjoyed the support of management staff with long-term service.

As at 31 January 2004 (being the latest practicable date prior to the printing of this Prospectus), labour on the factory floor represented the largest category of employees, accounting for 70.83% of the total employees of the BKG Group. These are primarily skilled workers, which include cabin knockers, carpenters, electricians, forklifts and material handler drivers, general workers, mechanics, painters, welders and workers involved in sandblasting and tyres change. Approximately 34.80% and 23.04% of the total factory floor workers were skilled and semi-skilled respectively. The unskilled workers accounted for approximately 42.16% of the total factory floor workers.

The loss of Directors or key members of the key management could adversely affect the Group's ability to compete in the industry. The Group is proposing to implement an ESOS in conjunction with the Listing Scheme for the benefit of the Group's eligible Executive Directors and employees. The BKG Group provides incentives and training program to retain its workforce. Management succession plan has been developed to ensure the smooth running and succession of the Group's business. However, there can be no assurance that the Group will always be successful in retaining its workforce.

3. RISK FACTORS *(Cont'd)*

(vii) Insurance Coverage on Assets

The Group is aware of the adverse consequences arising from inadequate insurance coverage that could impact on its business operations. In ensuring such risks are maintained to the minimum, the Group reviews and ensures adequate coverage for its assets on a continuous basis.

For the Group's operations, all assets such as plant and machineries, inventory, office equipment and furniture and fitting are sufficiently insured under fire and other insurance policies.

(viii) Competition

The Rebuilt Commercial Vehicle Industry operates primarily under oligopoly conditions. As at 31 January 2004 (being the latest practicable date prior to the printing of this Prospectus), there were three (3) operators in Malaysia, including BKG Group, which are able to Rebuild Commercial Vehicles for on-road use. However, apart from BKG Group, the other two (2) companies have been granted Letters of Approval in July and August 2003 for probation periods of six months to undertake Rebuilding of Commercial Vehicles. The status of the other two (2) companies remains the same as at 31 January 2004 (being the latest practicable date prior to the printing of this Prospectus).

BKG Group also face competition from new, used and Reconditioned Commercial Vehicles. According to the Malaysian Industrial Development Authority, there are four (4) manufacturers and nine (9) assemblers of motor vehicles within the Automotive Industry. Some of the assemblers are large operators with established brands such as Nissan, Isuzu and Volvo. These global brand names would exert strong competitive pressure.

Reconditioned Commercial Vehicles are also imported. However, imported Reconditioned Commercial Vehicles have restrictions. Only Reconditioned prime movers, tippers and specialised Commercial Vehicles are allowed to be imported into Malaysia through the Approval Permit ("**AP**") system. Imported prime movers are not allowed to be transferred to another owner for a minimum of four (4) years and imported tippers are not allowed to be modified. Rigid Commercial vehicles are not allowed to be imported.

Rebuilt Commercial Vehicles are priced significantly lower than new Commercial Vehicles. In addition, Rebuilt Commercial Vehicles are treated as equivalent to new Commercial Vehicles as their odometers are reset to zero and their dates of manufacture are set as the dates of completion of rebuilding. As such, Rebuilt Commercial Vehicles have significant price advantage over new Commercial Vehicles. Rebuilt Commercial Vehicles target end-users that are unable to afford the high price of new Commercial Vehicles. As such, this group of end-users have only the used, Reconditioned and Rebuilt Commercial Vehicles to choose from. With only two (2) new entrants into the Rebuilt Commercial Vehicle Industry, most of the immediate competition to BKG Group would come from Used or Reconditioned Commercial Vehicles for on-road usage.

The recognition by the local financial institutions on the Rebuilt Commercial Vehicles also enabled the customers to obtain hire purchase facilities for the end-financing of the Commercial Vehicles.

With BKG Group being a market leader and the most established manufacturer of Rebuilt Commercial Vehicles, there are significant competitive advantages compared to new entrants. Over the years, the involvement of the Group in this industry will have resulted in the recognition of the Group's products in the market, which is an endorsement of its quality and abilities.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

Nonetheless, no assurance could be given that any change to these factors would not have any material adverse impact on the Group's business.

(ix) Dependence on Particular Markets and Geographical Locations

As BKG Group is an integrated manufacturer of Rebuilt and Reconditioned Commercial Vehicles and Bodyworks, its range of products and services is diverse. Apart from manufacturing activities, the Group is also involved in trading and related services, which provides it with further diversity.

Although BKG Group's revenue is derived from the Malaysian market, it services a diverse number of states throughout Malaysia. The geographic diversity of BKG Group's sales is through a combination of its own in-house sales team and a group of authorised dealers. For the financial year ended 31 December 2002, BKG Group made sales to all the states and territories in Malaysia with the exception of Labuan. For the 10 months period ended 31 October 2003, the BKG Group has managed to diversify its geographical sales to Myanmar.

These diversities would help reduce the Group's dependencies on any one or small number of sectors or products or geographical locations.

(x) Risk of Increase in Cost of Labour and Labour Strike

As the production processes of BKG Group are still labour intensive, the Group is subject to the risk of increase in cost of labour and labour strike. In this respect, the Group has taken steps to minimise the risk by maintaining a good labour relationship with its workers. However, the direct labour cost represented approximately 4.5% and 4.6% of the Group's total revenue for the financial year ended 31 December 2002 and for the 10 months period ended 31 October 2003 respectively.

BKG Group plans to invest in production machineries and equipment to slowly phase out certain manual operation through introduction of automated production processes in order to reduce the dependency on manual labour and cost of labour.

However, no assurance can be given that any change to these plans will not have a material adverse effect on the Group's business.

(xi) Economic, Political and Regulatory Risks

BKG Group's business, prospects and financial conditions, and level of profitability may be affected by the development of the economic, political and regulatory environment in Malaysia. Adverse development in political, economic and regulatory conditions in Malaysia as well as other countries where the Group may operate, source its supplies or market its products could materially and adversely affect the financial and operational conditions as well as the overall profitability of the Group. Political and economic uncertainties include (but not limited to) changes in general economic, business and credit conditions, government legislations and policies affecting manufacturers, inflation, interest rates, fluctuations in foreign exchange rates, political or social development, risks of war, expropriation, nationalisation, renegotiation or nullification of existing contacts, methods of taxation and currency exchange controls.

The 11 September 2001 terrorist attacks on the US, terrorist bombing in Bali, Indonesia, the war In Iraq and the outbreak of Severe Acute Respiratory Syndrome ("**SARS**") have aggravated the situation on the global economic slowdown. The US economy and worldwide economies have become increasingly volatile.

Thus, a slowdown in the global economy will impact on demand from Malaysian manufacturers. Similarly, any slowdown in the Malaysian economy would result in weaker business and consumer sentiments, as well as reduce consumers' disposable income. All these have the impact of reducing movement of goods, which would have a negative impact on the Rebuilt Commercial Vehicle Industry.

However, there are basic necessities which are still in demand regardless of the economic condition such as livestock, food products, essential items, petroleum etc. The transportation of the said goods will provide continuous sales of Commercial Vehicles to the Group.

In times of an economy slowdown, many may opt for lower cost Rebuilt Commercial Vehicles. As such, impact on the Rebuilt Commercial Vehicles would be less when compared to the impact on new Commercial Vehicles.

In addition, the Government's continued prompt policy in implementing pro-growth measures to sustain the country's growth momentum, by raising domestic demand to compensate for slower external growth, will help Malaysian manufacturers and service operators including operators in the Rebuilt Commercial Vehicle Industry to be in a stronger position to counter the effects of the slowdown in the global and local economy.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

Although BKG Group is adopting a prudent approach on its financial as well as an efficient operating procedures, there is no assurance that adverse political and economic development will not have a material impact on the Group.

(xii) Control by Promoters and/or Substantial Shareholders

After the IPO, the Promoters and/or the substantial shareholders who are also Executive Directors of BKG, as set out in Section 1.2 of this Prospectus will collectively control 67.18% of BKG's enlarged issued and paid-up capital. As a result, these Promoters and/or substantial shareholders 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.

3. RISK FACTORS *(Cont'd)*

(xiii) Government Control or Regulation Considerations

The business activities of BKG Group are subject to significant Government laws, regulations and policies on the Rebuilding of Commercial Vehicle. This has positioned the Group in a better competitive advantage as the barrier of entry in terms of licensing to the industry is high. Since its incorporation, the Group has complied with the Malaysian's regulatory requirements in carrying out its business activities. However, as the Group intends to penetrate into overseas markets, there is no assurance that any different government regulations and policy in the foreign countries may not affect the Group's performance. However, the Group's track record on complying with the local regulatory requirements should provide a foundation in exploring business opportunities in the relevant overseas countries. In addition, the Group has recently exported its Rebuilt Commercial Vehicles to Myanmar.

(xiv) Technology Used

Technologies utilised by BKG Group are all encompassed within the mechanical engineering. Engine technology to-date is dynamic. BKG Group is exploring new technology and technical know-how by continuous investing in the latest machineries for the automotive industry to meet the latest requirements of its customers on a timely basis.

However, there can be no assurance that the Group's development will be successful in the procurement of the latest technology or the emergence of new technologies will not reduce the competitiveness of the Group.

(xv) Achievability of Profit Estimate and Forecast

It should be noted that the profit estimate and forecast are based on various assumptions in respect to the levels and timing of revenues, cost, interest rates, exchange rates and various other matters of an operational or financial nature, which assumptions are believed by the Directors of the Company to be reasonable. These assumptions are nevertheless subject to uncertainties and contingencies. Because of the inherent uncertainties of estimate and forecast and because of the events and circumstances may not occur as expected, no assurance can be given that such assumptions and the resultant estimate and forecast results will be realised, and actual results may be materially different from that shown. Potential investors should note carefully the bases and assumptions to the profit estimate and forecast as well as the comments by the Reporting Accountants in their letter on the consolidated profit estimate and forecast as set out in Section 9.6 of this Prospectus.

(xvi) Disclosure Regarding Forward-Looking Statements

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results, and any forward-looking statements in nature are subject to uncertainties and contingencies. All forward-looking statements are based on estimate, forecast and assumptions made by the Company and although believed to be reasonable, are subject to unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance of achievements expressed or implied in such forward-looking statements. Such factors include, inter-alia, general economic and business conditions, competition and the impact of new laws and regulations affecting the Group. In the light of these and other uncertainties, the inclusion of any forward-looking statements in this Prospectus should not be regarded that the plans and objectives of the Group will be achieved.

(xvii) Related Party Transactions/ Conflict of Interest

As disclosed in Section 7.1 of this Prospectus, there are certain related party transactions involving the Directors and substantial shareholders and/or persons connected to the Directors and substantial shareholders of BKG. The Directors and substantial shareholders of BKG have given an undertaking that all business transactions between the Group and the Directors and substantial shareholders and/ or persons connected to them, shall be based on arms length basis and on commercial terms that shall not be disadvantages to the Group.

Independent Directors has been appointed to the Audit Committee as well as to the board of BKG. The responsibilities of the Independent Directors would be to provide balance to the management of the Group and undertake the functions, amongst others, overseeing the conduct of the Group's business to evaluate whether the business is being properly managed, identify principal risks and ensure the implementation of appropriate systems to manage these risks, and reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Should there be any issue or concern with regard to the related party transactions or conflict of interest affecting the Group, the Audit Committee will investigate and take the necessary measures.

(xviii) Long-Term Contracts

The nature of the industry is such that there are no long-term contracts. This is because purchases are on as-need basis and Commercial Vehicles or Bodyworks are expected to last many years. BKG Group works from confirmed purchase orders for Rebuilt Commercial Vehicles and Bodyworks. On average, customers of BKG Group place their orders one (1) to three (3) months in advance before taking delivery.

Although there are no formal long-term contractual arrangements with customers, BKG Group has established a close working relationship with its customers. For the financial year ended 31 December 2002 and for the 10 months period ended 31 October 2003, around 55% and 52% of its top 20 customers respectively have been dealing with the Group for 3 or more years. These mutually beneficial long-term relationships are indications of business continuity between BKG Group and its customers.

(xix) No Prior Market for BKG's Shares

Prior to this IPO, there has been no public market for BKG's Shares. There can be no assurance that an active market for BKG's Shares will develop and continue to develop upon or subsequent to its listing on the Second Board of the MSEB or, if developed, that such a market will be sustained. The IPO Price of RM1.00 per Share has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and condition, its prospects and the prospects of the industry in which the Group operates, the management of the Group, the market prices for shares of companies engaged in business similar to that of the Group and the prevailing market conditions at the time the application for listing of BKG was submitted to the SC. There can be no assurance that the IPO Price will correspond to the price at which BKG's Shares will trade on the Second Board of the MSEB upon or subsequent to its listing.

(xx) Risk of Business Disruptions

It is important that energy is available for the manufacturing operations and production of the BKG Group. The Group did not experience any disruption in business arising from energy disruptions which have a significant effect on its operations and productions for the past twelve (12) months prior to the date of this Prospectus. Any energy disruption to the Group will affect and disrupt the prompt delivery of the Rebuilt and Reconditioned Commercial Vehicles, and Bodyworks to its customers. However, no assurance can be given that the Group will be completely sheltered against such crisis in the future, or that energy disruptions will not adversely affect the Group's performance. However, the Group has installed a generator set for contingency purposes to minimise any disruption.

(xxi) Implementation of AFTA

With the implementation of AFTA in 2005 for Automotive Industry, the reduction of import duties to 0% or 5% would make imports competitive against locally manufactured, Rebuilt and Reconditioned Commercial Vehicles.

However, the local operators within the Rebuilt Commercial Vehicle Industry will still have some advantages, in terms of cost competitiveness over imported Commercial Vehicles. Under AFTA, several measures such as local content requirement of at least 40% will still be imposed on imported vehicles if lower import tariff is to be obtained.

Hence, as tariffs and trade policies will still be the main instruments in regulating the importation of vehicles in the country under AFTA, the development of the Automotive Industry including the Rebuilt Commercial Vehicle Industry will continue to be sustained. Additionally, imported Rebuilt Commercial Vehicles would need to obtain various licences, particularly for certification of roadworthiness from the RTD. Thus, this could create a barrier for imported Rebuilt Commercial Vehicles.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

The Directors of BKG are of the opinion that the implementation of AFTA will present only minimal impact on BKG Group's business after taking into consideration the following:-

(a) BKG Group, being the pioneer in the Rebuilt/Reconditioned Commercial Vehicles Industries will still be able to compete competitively as the selling prices of its Commercial Vehicles are priced at approximately 30% to 50% lower than the comparable imported Commercial Vehicles after the implementation of AFTA.

(b) Currently there is no/minimal import duty imposed on CKD Commercial Vehicles (i.e. motor vehicles for transport of goods). This is as listed in item 162 to item 179 under the HS Code 8704 in the List of Malaysia's Automotive Products to be Deferred From the Common Effective Preferential Tariff ("**CEPT**") Scheme downloaded from the website of MITI. The implementation of AFTA would have an impact on the other motor vehicles other than Commercial Vehicles under the CKD category. As such, the implementation of AFTA is not expected to result in price reduction for new Commercial Vehicles.

(c) Local Commercial Vehicles within the Rebuilt Commercial Vehicle Industry will still have some advantages, in terms of cost competitiveness, over imported Commercial Vehicles.

(d) BKG Group which has currently met the 40% local content requirement, would have an advantage in penetrating new export markets for its Commercial Vehicles within the AFTA countries. This is because the BKG Group will be able to benefit from the implementation of AFTA whereby tariffs and trade policies will still be the main instruments imposed on the imported parts and components including importation of Commercial Vehicles by the member countries under AFTA.

(e) Imported Rebuilt commercial Vehicles would need to obtain various licences, particularly for certification of roadworthiness from the RTD. Thus, this could create a barrier to entry for imported Rebuilt Commercial Vehicles.

(xxii) Over-dependency on Imported Automated Parts and Components

Although Malaysia has its own supply of automotive components and parts, a sizeable portion of intermediate inputs and automotive parts are still imported by components and parts manufacturers for local production and value-added activities. This is due to the limited range of components and parts produced locally.

As the Automotive Industry is a global industry, there are ample sources of supply in the world market. From that perspective, any shortage in supply is minimised. In addition, with the depletion of 11 items under the list of Mandatory Deleted Items by 31 December 2003, components and commercial vehicle manufacturers, assemblers and rebuilders can now source these deleted items from any part of the world.

Under the existing local content requirement policy, the Automotive Components and Parts Industry has been established and has resulted in an extensive range of parts and components produced locally, thus replacing much of imported items.

Automotive component and part manufacturers are now increasingly exporting to regional markets. Some of the Malaysian automotive component and part manufacturers have joint ventures in other Asean countries and China to cater for regional requirements. Automotive component parts manufacturers from other ASEAN countries have also established joint ventures in Malaysia. All these points to an increasing range of parts and components from local manufactures.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

(xxiii) Government Policy on Commercial Vehicles

In November 2003, the Commercial Vehicles Licensing Board lifted the ban on Commercial Vehicles that are more than 15 years old for on-road usage for the transportation of goods and passengers.

This may have a negative impact on the demand for Rebuilt Commercial Vehicles sector whereby users can extend the use of their Commercial Vehicles beyond 15 years.

In mitigation, this is not likely to have a major impact on the demand for Rebuilt Commercial Vehicles as running a Commercial Vehicle that is more than 15 years old is not likely to be efficient and will result in costly repairs and maintenance. It is more than likely that many users would consider either buying a new or Rebuilt Commercial Vehicle after 15 years regardless of any Government regulations.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

(xxiv) Increase in Competition from New Entrants

Two other operators have been given Letters of Approval on July and August 2003 for probation periods of six (6) months for the Rebuilding of Commercial Vehicles. These Letters of Approval would enable them to Rebuild Commercial Vehicles for on-road use. After the probation periods, their operations will be assessed and reviewed, and Certificates of Recognition for Rebuilding Commercial Vehicles may then be issued subject to JPJ's assessment of the operators' full compliance with JPJ's technical and registration specifications.

New entrants will increase the competition for the existing operator in the industry.

In mitigation, new entrants into the industry will take time and investment to build a reputable brand name of Rebuilt Commercial Vehicles.

In addition, track record and market reputation is critical particularly in Commercial Vehicles whereby compliance to safety standards and roadworthiness are important buying factors.

New entrants will also require time to fully comply with the various technical specifications of the Department of Transport before the issuance of Certification of Recognition for Rebuilding Commercial Vehicles. This requires significant skilled resources and capital, and a period of testing by the Department of Transport to ensure the capabilities of any new entrant.

(Source : Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd)

This is where established operators such as BKG Group, with its track record and a highly recognised brand name will have a significant advantage over new entrants.

In the opinion of the Directors of BKG, there is always the possibility of new entrants coming to compete for market share and thereby possibly affecting the Group's performance. The rebuilding of Commercial Vehicles is a capital and labour intensive process that requires relevant technical expertise. At the same time, it will take time for new entrants to establish themselves in the industry and to gain the necessary expertise and recognition. As such, these will provide an opportunity for the BKG Group to further entrenched itself in the Rebuilt Commercial Vehicle Industry and act as a natural deterrent to new entrants. This is because by the time the new entrants are able to gain the necessary expertise and established themselves in gaining the recognition at same current level as the BKG Group, barring unforeseen circumstances, the Directors of BKG are of the opinion that the BKG Group will be able to advance and leap frog the Group to the next level with the head start the Group had gained as the pioneer in the Rebuilt Commercial Vehicle Industry.

In 2002, the overall sales quantity of Commercial Vehicles in general amounted to 75,020 units, representing an increase of 10.0% over the previous year. *(Source: Assessment of the Rebuilt Commercial Vehicle Industry, Vital Factor Consulting Sdn Bhd).* For the 10 months period ended 31 October 2003, the BKG Group generated sales of 622 units of Rebuilt Commercial Vehicles. The annualised sales quantity of BKG Group were approximately 746 units of Rebuilt Commercial Vehicles which is equivalent to approximately 0.99% of the total sales of Commercial Vehicles in the industry based on the statistics mentioned above.

As such, the existing market share of BKG Group for the Rebuilt Commercial Vehicles is relatively small compared to the overall sales for Commercial Vehicles, thus there is ample room for the BKG Group to increase and grow its market share for the Commercial Vehicles despite the potential competition from the emergence of new entrants.

However, there can be no assurance that the new entrants will not affect the performance and the market share of BKG Group.

3. RISK FACTORS *(Cont'd)*

(xxv) Investment Risks

The Group may from time to time invest in new equipment or new ventures, which it believes to be beneficial to the business of the Group or is synergistic with the Group's current operations. Although the Group exercises prudence in its decision making, there is always the potential risk that the returns from these investments may have a longer payback period than expected or the investment may fail. Although the Group will mitigate its investment risks by exercising due care in the evaluation of its investments, there can be no assurance that all its future investments will yield positive returns to the Group and would not have any adverse material effect on the Group's future financial performance.

(xxvi) Trade Mark and Franchise Rights

BKG Group Rebuilt a wide range of Commercial Vehicles which originated from the manufacturers' own brand names such as Toyota, Isuzu, Nissan (Universal Diesel), Hino, Volvo, Scania, Renault and Mitsubishi (Fuso).

In view that the BKG Group is involved in the various models/brands, there were concerns on whether the Group should procure the franchise rights from the respective manufacturers/owners of the models/brands of the vehicles that the BKG Group used for its activities of reconditioning or rebuilding. MITI has via its letter dated 3 January 2001 to BKVI clarified that the franchise rights is relevant to the assembly of new vehicles only and not applicable to the Reconditioned and Rebuilt of Commercial Vehicles undertaken by the BKG Group.

The Directors of BKG has sought a legal opinion on the matter from its solicitors, Messrs Ghazi and Lim. Messrs Ghazi & Lim via its letter dated 23 June 2003 are of the opinion that the manufacturer of the Rebuilt Commercial Vehicles with the trade mark of the original manufacturer remaining intact would not infringe the trade mark of the original manufacturer based upon the Australian case of *Wingate Marketing Pty Ltd v Levi Strauss & Co (1994) 121 ALR 191*.

Furthermore, Messrs Ghazi & Lim via its letter dated 10 October 2003 are of the opinion that the resale of second hand vehicles, in the case of Rebuilt Commercial Vehicles, do not require a franchise from the original manufacturer nor a sub-franchise from the franchise holder in Malaysia from the original manufacturer. This is because BKG is not importing new vehicles directly from the original manufacturer. In addition, BKG is not a party to the franchise agreement (if any) between the original manufacturer and the franchise holder in Malaysia and therefore are not contractually liable to that.

(xxvii) Cash Flow Sufficiency and Need for Future Capital Injection

The Directors of BKG are of the opinion that the net proceeds from the Rights Issue and Public Issue, with cash flow from operations and other existing sources of liquidity will be sufficient to meet its forecasted and projected working capital and other cash requirements. However, there is no assurance that future events may not cause the Group to seek additional capital sooner. If additional capital is required, there can be no assurance that it will be available or, if available, that it will be on terms satisfactory to the Group. The issue of additional equity or other convertibles securities to non-shareholders will result in further dilution of the Company's shareholders equity interest.

The continued availability of credit lines has an important bearing on the operations and capital expenditure plans of the Group. As such, there can be no assurance that the creditors that have extended credit will continue to make available the funding facilities required. Further to the above, there can be no assurance that the current assets of the Group will be realised on a timely basis to meet the obligations of the Group as and when they fall due.

As at 31 January 2004 (being the latest practicable date prior to the printing of this Prospectus), the Directors of BKG confirm that the Group has not faced any cash flow insufficiency position for the Group's operations. No assurance that any cash flow insufficiency will not affect the performance of the Group. In order to mitigate the said occurrence, the management has implemented credit risk procedures to assess credit worthiness of its customers and to monitor the status of the Group's debts and its collection to reduce the exposure to credit risks of the Group's customers. Utmost priorities are also placed by the Directors of BKG on the monitoring on the Group's utilisation of credit facilities secured from financial institutions and management of credit terms extended from suppliers in order to ensure efficiency of the Group's cash flow management and interest expense/financing charges. Priority is also placed on the monitoring of stock holding levels for raw materials and finished products as the rebuilding process of Commercial Vehicles are capital and labour intensive in nature where substantial amount of capital will be required to hold the stock during the lead time and to meet the customer's orders.

The repayment of bank borrowings from the Rights Issue and Public Issue proceeds will reduce the Group's gearing level from 0.38 times to 0.10 times (based on the proforma Group's total borrowings as at 31 December 2004 and proforma Group shareholders' funds as at 31 December 2004) and this will provide a leeway for the Group to secure additional banking facilities should the need arise.

(xxviii) Failure/Delay in the Listing

The success of the listing exercise is also exposed to the risk that it may fail or be delayed should any of the following event occurs:-

(i) The Bumiputera investors approved by MITI fail to subscribe for the IPO Shares allocated to them;

(ii) The eligible Directors, employees and business associates of the Group fail to subscribe for the IPO Shares allocated to them;

(iii) The underwriters of the IPO fail to honour their obligations under the underwriting agreements;

(iv) The placees under the Private Placement fail to subscribe for the IPO Shares allocated to them; and

(v) BKG is unable to meet the public spread requirements i.e. at least 25% of the total issued and paid-up capital of BKG must be held by a minimum of 1,000 public shareholders holding no less than 100 Shares each in BKG at the point of listing.

BKG Group will comply with the Listing Requirements and SC Guidelines whichever is applicable and relevant to the above. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or abortion of the Listing.