III. DETAILS OF THE ISSUES

1. INTRODUCTION

This Prospectus is dated 17 September 2004.

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

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, Bursa Securities has prescribed KHIB Shares as a prescribed security. In consequence thereof, the Issues Shares offered or issued through this Prospectus will be deposited directly with the Bursa Depository and any dealings in these Issues Shares will be carried out in accordance with the Securities Industry (Central Depositories) Act, 1991 and the Rules of Bursa Depository. No share certificates will be issued to successful applicants.

An application will be made to Bursa Securities within 3 Market Days of the issuance of this Prospectus for the admission to the Official List of the Second Board of Bursa Securities and for permission to deal in and for the listing of and quotation for the entire enlarged issued and fully paid-up share capital of the Company, including the Issues Shares, which are the subject of this Prospectus. These ordinary shares will be admitted to the Official List of the Second Board of Bursa Securities and the official quotation will commence after receipt of confirmation from Bursa Depository that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been dispatched to all successful applicants.

Acceptance of applications will be conditional upon permission being granted by Bursa Securities to deal in and for the listing of and quotation for the entire enlarged issued and fully paid-up ordinary shares of RM0.50 each of the Company, including the Issues Shares. Accordingly, monies paid in respect of any application accepted from the applications will be returned without interest if the said permission for the listing and quotation is not granted within 6 weeks from the date of this Prospectus or such longer period as may be specified by the SC, provided that the Company is notified by or on behalf of Bursa Securities within the aforesaid timeframe.

Pursuant to the Listing Requirements of Bursa Securities, at least 25% of the enlarged issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each upon completion of the Issues. In the event that the above requirement is not met pursuant to the Issues, the Company may not be allowed to proceed with the Listing. In the event thereof, monies paid in respect of all applications will be returned without interest if the said permission for the listing and quotation is not granted.

Applicants of the Issues Shares must have a CDS account. In the case of an application by way of Application Form, an applicant must state his CDS account number in the space provided in the Application Form and he shall be deemed to have authorised Bursa Depository to disclose information pertaining to the CDS account to MIDFCCS and the Company for the purpose of crediting the Issues Shares allotted to him to his CDS account. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS account can make an Electronic Share Application and the applicant shall furnish his CDS account number to the Participating Financial Institution by way of keying in his CDS account number if the instructions on the ATM screen at which he enters his Electronic Share Application require him to do so. A corporation or institution cannot apply for the Issues Shares by way of Electronic Share Application.

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

The distribution of this Prospectus and the offer and sale of the Issues Shares are subject to Malaysian law and the Company takes no responsibility for the distribution of this Prospectus and/or the offer and sale of the Issues Shares outside Malaysia. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to apply for or offer to sell any Issues Shares in any jurisdiction in which such invitation or offer is not authorised or lawful or to any person to whom it is unlawful to make such invitation or offer.

If you are in doubt about this Prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or any other professional adviser immediately.

2. DETAILS OF THE ISSUES

The Offer for Sale and Public Issue shall be subject to the terms and conditions of this Prospectus and upon acceptance will be allocated in the following manner:

(i) Eligible Directors and employees of KHIB and its subsidiaries

3,800,000 Offer Shares will be reserved for the eligible Directors and employees of KHIB and its subsidiaries.

(ii) Malaysian public

6,000,000 Public Issue Shares will be 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.

(iii) Private placement

4,000,000 Offer Shares and 1,800,000 Public Issue Shares have been reserved for private placement to identified investors, of which at least 30% is to be placed, to the extent possible, to Bumiputera investors.

The Offer Shares in respect of paragraph (i) above are allocated to 578 persons based on the following criteria:

(a) 363,250 KHIB Shares each are allocated to both Liew Choon Fong and Shigeaki Sugiyama, both Executive Directors of KHIB; and

(b) the position and the number of years of service of the eligible employees who are confirmed employees of the KHIB Group as at 6 September 2004.

All of the Offer Shares and Public Issue Shares in respect of items (i) and (ii) above have been fully underwritten by the Underwriters.

The identified investors of the Offer Shares and Public Issue Shares mentioned in item (iii) above have provided irrevocable undertakings to acquire the said shares.

In the event the eligible Directors and employees of KHIB and its subsidiaries do not take up the Offer Shares in respect of item (i) above allocated to them, the Offer Shares will be reallocated to other Directors and employees of KHIB and its subsidiaries. Any Offer Shares still not taken up by the eligible Directors and employees of KHIB and its subsidiaries will then be made available for application by the Malaysian public as stated in item (ii) above.

3. SHARE CAPITAL AND RIGHTS ATTACHING TO THE ISSUES SHARES

	RM
Authorised	
100,000,000 KHIB Shares	50,000,000
Issued and fully paid-up as at the date of this Prospectus	
91,200,000 KHIB Shares	45,600,000
To be issued pursuant to the Public Issue	
7,800,000 new KHIB Shares	3,900,000
Enlarged issued and fully paid-up share capital	49,500,000
To be offered for sale by the Offerors pursuant to the Offer for Sale	
7,800,000 KHIB Shares	3,900,000

The Offer Price or Public Issue Price of RM0.65 per Offer Share or Public Issue Share is payable in full upon application.

Class of shares and ranking

There is only one class of shares in KHIB, namely ordinary shares of RM0.50 each. The Issues Shares shall rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and will be entitled to all rights and dividends and distribution that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company in accordance with the Articles of Association of the Company.

At a general meeting of the Company, each shareholder shall be entitled to vote in person or by proxy or by attorney and, on a show of hands, every person present who is a shareholder or proxy or attorney of a shareholder or other duly authorised representative shall have one vote and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held. A proxy may but need not be a member of the Company.

4. OPENING AND CLOSING OF APPLICATIONS

Applications will be accepted from 10.00 a.m. on 17 September 2004 and will close at 5.00 p.m. on 24 September 2004 or at such later date or dates as the Directors of the Company, Offerors and the Managing Underwriter may in their absolute discretion mutually decide. Late applications will not be accepted. Should the closing date of the application be extended, the notice of extension of the closing date will be published in a Bahasa Malaysia and English newpaper which is widely circulated throughout Malaysia. The indicative timing of events leading up to the Listing is set out below:

Event	**Date**
Opening of applications	17 September 2004
Closing of applications	24 September 2004
Balloting date	28 September 2004
Date of dispatch of notice of allotment to successful applicants	5 October 2004
Listing date	6 October 2004

5. BASIS OF ARRIVING AT THE OFFER PRICE OR PUBLIC ISSUE PRICE

The Offer Price or Public Issue Price of RM0.65 per Offer Share or Public Issue Share, was determined and agreed upon by the Company, the Offerors and CIMB, as the Adviser, Managing Underwriter and Placement Agent, after taking into consideration the following factors:

(i) the Group's financial and operating history and conditions;

(ii) the Group's future plans and prospects and the future prospects of the industry in which the Group operates as outlined in Part V of this Prospectus;

(iii) the forecast net PE multiple of 8.35 times based 99,000,000 KHIB Shares for the financial year ending 30 April 2005;

(iv) the proforma Group NTA per KHIB Share of RM0.53 as at 30 April 2004;

(v) the prevailing market conditions; and

(vi) the forecast tax-exempt dividend yield of 3.08% for the financial year ending 30 April 2005.

Investors should note that the market price of the Issues Shares, upon and subsequent to the listing on the Second Board of Bursa Securities are subject to the vagaries of market forces and other uncertainties, which may affect the price of the said shares. Investors should bear in mind the risk factors as set out in Part IV of this Prospectus before deciding on whether or not to invest in the Issues Shares.

6. PURPOSES OF THE ISSUES

The purposes of the Issues are as follows:

(i) To provide an opportunity for the Malaysian public, Bumiputera investors, eligible Directors and employees of KHIB and its subsidiaries to participate in the continuing growth of the Group;

(ii) To provide the Company access to the capital market to raise funds for future expansion, diversification, modernisation and continued growth of the Group;

(iii) To provide additional funds to meet the present and future working capital requirements of the Group; and

(iv) To obtain a listing of and quotation for the entire issued and paid-up share capital of KHIB on the Second Board of Bursa Securities.

7. PROCEEDS FROM THE PUBLIC ISSUE AND THE UTILISATION THEREOF

The total gross proceeds receivable by KHIB from the Public Issue of RM5.070 million is expected to be fully utilised by the Group for its core business by April 2006 in the following manner:

	Note	RM 000
Working capital	1	3,070
Estimated listing expenses	2	2,000
		5,070

Notes:

1. An allocated sum of RM3.070 million will be utilised for the working capital of the KHIB Group for its core business mainly for trade and administrative payments to suppliers. The KHIB Group is principally involved in sheet metal forming, precision machining and components assembly, trading in electrical and electronic products and home appliances.

2. The estimated listing expenses amounting to approximately RM2.000 million consists of the following:

	RM 000
Professional fees	*900*
Fees payable to the SC	*62*
Fees payable to Bursa Securities including initial and annual listing fees	*15*
Underwriting commission	*150*
Brokerage fees	*60*
Placement fee	*18*
Issuing house fees	*100*
Printing and advertisement of Prospectus	*350*
Contingencies	*345*
Total	*2,000*

All estimated expenses and fees, including brokerage, underwriting commission and placement fees relating to the Offer Shares incidental to the Listing, shall be borne by the Offerors.

8. BROKERAGE, UNDERWRITING COMMISSION AND PLACEMENT FEES

Brokerage relating to the Offer Shares and Public Issue Shares, will be borne by the Offerors and the Company, respectively, at the rate of 1.00% of the Offer Price or Public Issue Price of RM0.65 per Issues Share in respect of successful applications bearing the stamp of CIMB, participating organisations of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS.

The Managing Underwriter for the Issues is CIMB, whilst the Underwriters are CIMB and MIMB.

The Underwriters have agreed to underwrite 3,800,000 Offer Shares for application by the eligible Directors and employees of KHIB and its subsidiaries and 6,000,000 Public Issue Shares for application by the Malaysian public. The managing underwriting commission and underwriting commission is payable by the Offerors and Company, to the Managing Underwriter and Underwriters at the rate of 0.50% and 2.00%, respectively of the Offer Price or Public Issue Price of RM0.65 for each Offer Share or Public Issue Share being underwritten.

The Placement Agent has agreed to place 4,000,000 Offer Shares and 1,800,000 Public Issue Shares which are reserved for the identified investors. Placement fees shall be payable by the Offerors and Company, respectively to the Placement Agent at the rate of 2.50% of the Offer Price or Public Issue Price of RM0.65 for each Offer Share or Public Issue Share for placees identified and secured by the Placement Agent. For placees identified and secured by the Offerors or the Company, placement fees at the rate of 1.00% of the Offer Price or Public Issue Price of RM0.65 for each Offer Share or Public Issue Share is payable to the Placement Agent.

9. DETAILS OF THE UNDERWRITING AGREEMENT

An underwriting agreement was entered into between the Company, the Offerors, CIMB and MIMB on 25 August 2004 ("Parties") to underwrite the 3,800,000 Offer Shares and 6,000,000 Public Issue Shares ("Underwritten Shares"). Some of the salient terms of the Underwriting Agreement are as follows:

(i) Pursuant to Clause 2.3 of the Underwriting Agreement, the obligations of the Managing Underwriter and Underwriters under the Underwriting Agreement are conditional upon:

(a) there having been on or prior to the Closing Date (means the date adopted in the Prospectus as the last date for acceptance and receipt of application for the subscription of the Issues Shares or on any later date as the Company and the Managing Underwriter may mutually agree upon), neither any material adverse change nor any development reasonably likely to result in any material adverse change, in the condition (financial or otherwise) of the Company or its subsidiaries, which is material in the context of the Offer for Sale or Public Issue from that set forth in the Prospectus, nor the occurrence of any event or the discovery of any fact which is inaccurate, untrue or incorrect to any extent which is or will be material in the reasonable opinion of the Managing Underwriter, which makes any of the representations and warranties contained in Clause 3 of the Underwriting Agreement untrue and incorrect in any material respect as though they had been given and made on such date with reference to the facts and circumstances then subsisting, nor the occurrence of any breach of the undertakings contained in Clause 3 of the Underwriting Agreement;

(b) the delivery to the Managing Underwriter prior to the date of the registration of the Prospectus, a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the Directors and the shareholders in general meeting approving the Underwriting Agreement, the Prospectus, the Offer for Sale and the Public Issue and authorising the execution of the Underwriting Agreement and the issuance of the Prospectus and a certificate, in the form or substantially in the form contained in the First Schedule of the Underwriting Agreement, dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 3 of the Underwriting Agreement;

(c) the delivery to the Managing Underwriter on the Closing Date of such reports and confirmations dated the Closing Date from the Directors of the Company and the Offerors as the Managing Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of the Underwriting Agreement that will adversely affect the performance or financial position of the Company or its subsidiaries;

(d) the Managing Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 12 of the Underwriting Agreement;

(e) the Offer for Sale and Public Issue not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia (including Bursa Securities);

(f) KHIB having complied and that the Offer for Sale and Public Issue are in compliance with the policies, guidelines and requirements of the SC and all revisions, amendments and/or supplements thereto;

(g) KHIB registering the Prospectus with the SC and the lodgement of the same with the ROC within 2 months from the date of the Underwriting Agreement, or within such other date as the Parties may mutually agree; and

(h) An application being made to Bursa Securities within 3 Market Days from the date of issue of the Prospectus for admission to the official list of Bursa Securities.

If any of the conditions set out in Clause 2.3 of the Underwriting Agreement is not satisfied by the Closing Date, the Managing Underwriter and Underwriters shall thereupon be entitled to terminate the Underwriting Agreement and in that event except for the liability of the Company for the payment of costs and expenses as provided in Clause 12 of the Underwriting Agreement incurred prior to the termination there shall be no further claims by the Managing Underwriter and the Underwriters against the Company and the Offerors, and the Parties shall be released and discharged from their respective obligations PROVIDED THAT the Managing Underwriter and the Underwriters may at its discretion with respect to its own obligations waive compliance with any of the provisions of Clause 2.3 of the Underwriting Agreement and any condition so waived shall be deemed to have been satisfied without affecting the Company's or the Offeror's obligations pursuant to the other provisions under the Underwriting Agreement. In addition to this, neither the Company, the Offerors nor the Underwriters shall be under any obligation to enter into a new or fresh underwriting agreement.

(ii) Pursuant to Clause 3.3 of the Underwriting Agreement, upon any material breach of the representations or warranties in the Underwriting Agreement or any material failure to perform any of the agreements or undertakings in the Underwriting Agreement or any change rendering any of the said warranties, representations or agreements inaccurate in a material respect coming to the notice of the Managing Underwriter and the Underwriters prior to the Closing Date, the Managing Underwriter and Underwriters shall be entitled by notice to the Company and the Offerors following prior consultation with the Company and the Offerors to elect to treat such misrepresentation, breach, failure or change as releasing or discharging the Managing Underwriter and the Underwriters from its obligations in the Underwriting Agreement PROVIDED THAT the Offerors and the Company shall remain liable for the payment of their respective costs and expenses referred to in Clause 12 of the Underwriting Agreement which are incurred prior to and in connection with such release and discharge AND PROVIDED THAT the exercise of the rights pursuant to Clause 3.3 of the Underwriting Agreement, upon or following the occurrence of any such breach shall not prejudice or nullify any right or clams for damages or any other remedy which the Underwriters may have against KHIB for or arising from any such breach.

(iii) Pursuant to Clause 9.1 of the Underwriting Agreement, subject to prior consultation with the Company and the Offerors, the Managing Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing delivered to the Company and the Offerors at any time on or before the Closing Date if the success of the Public Issue and/or the Offer for Sale or the distribution or sale (in the primary market) is, in the opinion of the Managing Underwriter and the Underwriters, materially jeopardised by:

(a) any material breach by the Offerors or the Company of any of the representations, warranties or undertakings contained in Clause 3 of the Underwriting Agreement (which, if capable of remedy, is not remedied within 3 Market Days after notice of such breach shall have been given to the Offerors and the Company by the Underwriters);

(b) any material and adverse change in the condition or any development resulting in a material and adverse change in the financial position of the Company and/or its subsidiaries from that described in this Prospectus; or

(c) any material and adverse changes in the markets of the products produced by the Group.

On delivery of such a notice, the Underwriting Agreement shall become null and void and each Party's rights and obligations shall cease and none of the Parties (except for the liability of the Offerors and the Company in respect of payments of costs and expenses referred to in Clause 12 of the Underwriting Agreement incurred prior to the termination) shall have any claim against each other. Thereafter, the Managing Underwriter, the Underwriters, the Offerors and the Company shall confer with a view to deferring the Public Issue and the Offer for Sale or entering into a new underwriting agreement PROVIDED THAT the Offerors, the Company or the Underwriters shall not be under any obligation to enter into such new agreement.

The obligations of the Underwriters shall lapse after the expiry of 3 months from the date of the Underwriting Agreement unless the Underwriters have consented to an extension of time beyond such period.

IV. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF THE KHIB GROUP OUTLINED IN THIS PROSPECTUS, APPLICANTS FOR THE ISSUES SHARES SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE OPERATIONS AND PERFORMANCE OF THE KHIB GROUP IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE APPLYING FOR THE ISSUES SHARES.

1. Delay in or Failure of the Listing

The KHIB Shares are currently not listed on Bursa Securities or any other stock exchange. An application will be made to Bursa Securities within 3 Market Days from the date of this Prospectus for admission to the Official List of Bursa Securities and for the listing of and quotation for the entire issued and fully paid-up share capital of the Company on the Second Board of Bursa Securities, including the Issues Shares. Acceptance of applications will be conditional upon permission being granted by Bursa Securities accordingly within 6 weeks from the date of this Prospectus or such longer period as may be specified by the SC, provided the Company is notified by or on behalf of Bursa Securities within the aforesaid timeframe. As such, monies paid in respect of any applications accepted will be returned without interest if the said permission is not granted within the aforesaid timeframe.

Furthermore, the Listing exercise is subject to the risk that it may be delayed or fail should any of the following events occur:

(i) the identified investors fail to subscribe for the portion of the Issues Shares to be placed to them despite having given irrevocable undertakings to subscribe;

(ii) the Underwriters exercising their rights pursuant to the Underwriting Agreement, discharge themselves from their obligations thereunder; or

(iii) the Company is unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each, upon completion of the Issues and at the point of Listing.

2. No Prior Market for KHIB Shares

Prior to the Issues, there has been no public market for KHIB Shares. There can be no assurance that an active market for KHIB Shares will develop upon the listing of KHIB on the Second Board of Bursa Securities or, if developed, that such market can be sustained. The Offer Price or Public Issue Price of RM0.65 per Offer Share or Public Issue Share was determined, after taking into consideration several factors including, but not limited to, the Group's financial and operating history and conditions, the Group's future plans and prospects and the future prospects of the industry in which the Group operates, the forecast net PE multiple, the proforma Group NTA per KHIB Share, the prevailing market conditions and the forecast tax-exempt dividend yield of 3.08% for the financial year ending 30 April 2005. The price at which KHIB Shares would trade on the Second Board of Bursa Securities after the Issues may be influenced by a number of factors, including the liquidity of the market for KHIB Shares, changes in securities analysts estimates of its financial results or recommendations and the perception of the investors of the Group. There can be no assurance that the Offer Price or Public Issue Price will correspond to the price at which KHIB Shares will trade on the Second Board of Bursa Securities either upon or subsequent to its listing or that an active market for the KHIB Shares will develop and continue upon or subsequent to its listing as a result of variations in its operating results.

3. Delay in Settlement and Trading

After the KHIB Shares have been allocated to the investors' CDS accounts with Bursa Depository, which would occur at least 1 clear Market Day prior to the anticipated date for admission, it may not be possible to immediately recover monies paid in respect of the Offer Shares or the Public Issue Shares from the Company or the Offerors in the event that admission and the commencement of trading on the Second Board of Bursa Securities is delayed.

In order for the Company to return the monies to investors in respect of the Public Issue Shares following their allocation in Bursa Depository, a reduction of the Company's capital would be necessary. This would require a special resolution of the Company and the approval of the High Court. There can be no assurance that monies can be recovered within a short period of time.

4. Ability to Realise Dividends from Its Subsidiaries

The Company conducts all of its operations through its subsidiaries. Accordingly, an important source of the Company's income, and consequently an important factor in the Company's ability to pay dividends on the KHIB Shares, is dividends and other distributions received from its subsidiaries. The Company's and its subsidiaries' ability to pay dividends or make other distributions to it are subject to restrictions contained in their loan agreements, adequate tax credit under Section 108 of the Income Tax Act, 1967 and to their having sufficient funds which are not needed to fund their operations, other obligations or business plans. As the Company is a shareholder of its subsidiaries, its claims as such will generally rank junior to all other creditors and claimants against its subsidiaries. In the event of a subsidiary's liquidation, there may not be sufficient assets for the Company to recoup its investment. There can be no assurance that the Company will indeed be in a position to pay dividends in the future financial years.

5. Business Risk

The Group is principally involved in, inter alia, sheet metal forming, precision machining and components assembly, trading in electrical and electronic products and home appliances. The Group is subject to certain risks inherent in the manufacturing of tools and dies, stamped metal parts, high precision tooling and die sets and moulds. These risks include changes in general economic conditions such as, but not limited to, general downturn in the global, regional and Malaysian economy, government regulations, inflation and changes in business conditions such as deterioration in prevailing market conditions, constraints in labour supply, increase in costs of labour and raw materials, increase in production cost, dependence on imported supplies and raw materials, changes in law and tax legislation affecting the industry in Malaysia and Vietnam and technological obsolescence. Although the Group seeks to mitigate these risks through, inter alia, semi and fully automated operations, R&D, securing good working relationships with a few quality suppliers and training and retention of skilled labour, there can be no assurance that any change to these factors will not have a material adverse effect on the Group's business.

6. Foreign Operations

In May 2003, the Group, expanded its operations to Vietnam mainly to cater to the needs of its major customers. By having a subsidiary in Vietnam, the Group expects to be able to better serve the volume needs of its customers which are expanding into Vietnam. The operations in Vietnam are, however, subject to certain risks which include but are not limited to the general conditions of the economy, political stability, changes in legal and tax legislation affecting conditions of the industry in which KHIB operates, fluctuations in exchange rates and fluctuations in costs of production. The Group endeavours to limit these uncertainties through internal feasibility studies, careful project planning and the appointment of experienced personnel. However, there can be no assurance that the foreign operations will be able to achieve operational targets and the planned financial contribution.

7. Competition

The Group faces competition from various competitors, which include local public listed and private companies in its businesses and overseas competitors from China and Thailand. The KHIB Group is confident of its ability in facing the competition as it has the requisite technical expertise and know-how and a good track record of meeting the stringent requirements of its quality conscious customers. The Group continuously strives to manufacture quality products, ensure prompt delivery and price competitiveness, increase its productivity and improve on production processes. However, there can be no assurance that the Group will be able to maintain and/or expand its market share in its local and overseas operations.

8. Control by Certain Substantial Shareholders

Upon completion of the Issues, the substantial shareholders of KHIB, namely Yap Toon Choy, Yong Elaine and Y.A.M. Tengku Syarif will collectively hold approximately 74% of the enlarged issued and paid-up share capital of KHIB. It is therefore likely that the aforesaid substantial shareholders, if they collectively vote together, will be able to jointly control the outcome of most matters requiring the vote of the KHIB shareholders unless they are required to abstain from voting by law and/or by the relevant authorities.

9. Dependency on Major Customers and Major Suppliers

The Group's top 5 customers, namely, Matsushita Electric Co (M) Sdn Bhd, Muramoto Technics (M) Sdn Bhd, Muramoto Asia (S) Pte Ltd, Sanden International (M) Sdn Bhd and Denso (Malaysia) Sdn Bhd accounted for approximately 69.21% of the Group's revenue for the financial year ended 30 April 2004. Matsushita Electric Co (M) Sdn Bhd and Muramoto Technics (M) Sdn Bhd jointly contribute approximately 51.07% of the Group's revenue for the financial year ended 30 April 2004 comprising mainly of sales of home appliances and components and devices. The Group's top 4 suppliers, namely, Sumiputeh Steel Centre (M) Sdn Bhd, Matsushita Electric Co (M) Sdn Bhd, OYL Steel Centre Sdn Bhd and Kawasho Steel Processing Centre Sdn Bhd accounted for approximately 68.61% of the Group's purchases for the financial year ended 30 April 2004.

Focus has been driven to reduce the dependency on sale of home appliances and components and devices in the future as the Company is investing its resources to increase the percentage of automobile components sales. The Group expects the contribution of the top 2 customers to be reduced to 30% - 40% of the total revenue.

The Group further believes that the revenue from the automobile sectors will be increased from the current 25% towards the region of 30% and above in the next 5 years. With this strategy, the Company hopes to balance the contribution from both home appliances and electrical and electronic sectors to 30% each. While efforts are being made to develop and expand the business and profitability of the other divisions to reduce dependency on the aforementioned customers and/suppliers, no assurance can be given that the loss of any one or more of these customers and/or suppliers resulting from, inter alia, relocation of the customers'/suppliers' business operation geographically or cessation of business relations, would not adversely impact on the Group's operating results.

10. Dependency on Key Personnel

The Group believes that its continued success will depend, to some extent, upon the abilities and continued efforts of its existing Directors and senior management. The loss of any of the Group's Directors and/or senior management may adversely affect the Group's performance and continuing ability to compete effectively in the industry. The Group endeavours to groom the existing staff to support senior management and/or to shoulder further responsibilities in preparation for long term expansion and to provide suitable incentives such as conducive working environment. As such, the Group has implemented both external and in-house training programmes with a view of grooming and developing its younger management personnel. The Group's future success would also depend upon its ability to attract new employees and to retain and motivate its existing employees. However, there can be no assurance that the above measures will be successful in retaining key personnel or ensuring a smooth transition should changes occur.

11. Adequacy of Insurance Coverage

Most of the fixed assets of the Group are adequately insured. As at 30 April 2004, the audited net book value of its fixed assets comprising motor vehicles, building (excluding land), office equipment, furniture and fittings, plant and machinery and stocks in trade is RM73.85 million which have insurance coverage amounting to RM43.68 million. Although the Group has taken the necessary measures to ensure that all its other assets are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate for the replacement cost of the assets or for any consequential costs arising from the need to replace such assets.

12. Risks Associated with Bank Borrowings and Restrictive Covenants under Borrowing Facility Agreements

The KHIB Group finances some of its working capital requirements by borrowings and internally generated funds. The KHIB Group's total borrowings based on the audited accounts as at 30 April 2004 amounted to approximately RM32.32 million comprising short and long term bank borrowings. As such, any additional borrowings and/or increase in interest rates may result in an increase in interest expense and affect the performance of the Group. There can be no assurance that the interest rates will be maintained in the future and/or that any increase in the Group's borrowings will not have a material effect on the performance of the Group.

KHI has entered into various credit facility agreements with banks or other financial institutions to finance their operations and business activities. These agreements contain, inter alia, covenants that may limit the KHIB Group's operating and financing flexibility. Any act by the KHIB Group falling within the ambit or scope of such covenants will require the consent of the relevant banks or financial institutions. Breach of such covenants may give rise to a right by the bank or financial institution to terminate the relevant credit facility and/or enforce any securities granted in relation to that credit facility and this may in turn cause a cross default of other credit facility agreements. The Directors of the Company are aware of such covenants and shall take all precautions necessary to obtain the consent of the relevant banks or financial institutions. However, there can be no assurance that such consent will be obtained and if the consent is not obtained, that it will not have a material effect on the performance of the Group.

13. Foreign Market Risks and Foreign Exchange Risks

For the financial year ended 30 April 2004, approximately 3% of the Group's products were exported to Singapore while 95% of its raw materials were indirectly imported from Japan through several local distributors. As such, the Group's future growth and level of profitability are expected to be also linked to the political and economic development of these countries, where some of the Group's customers and suppliers, direct or indirect, are located. The future growth of these economies may be affected by changes in inflation, interest rates, taxation and other political, economic or social developments.

The KHIB Group estimates that 3% to 5% of its purchases of raw materials are denominated in USD. Although the RM is currently pegged to the USD at a fixed exchange rate of USD1.00 to RM3.80 (imposed by BNM since 1998), there is no assurance that the peg will be maintained in the future and if it is removed, that it will not have a material effect on the performance of the Group. In the event the RM strengthens against the USD, the Group may have to absorb the resultant losses.

The KHIB Group intends to mitigate its foreign exchange risks by exercising prudent financial management and utilising hedging funds. However, there can be no assurance that fluctuations in the foreign currency exchange rates will not have a material adverse effect on the Group's financial performance.

14. Fluctuation in Raw Material and Selling Prices

The price of steel which is KHI's main raw material is dependent upon the world's demand and supply. KHI has established long term relationships with an extensive network of suppliers and is able to source its raw material at competitive prices. Fluctuation in price is a normal occurrence in industries where supply and demand are the main determinants of price. However, with foresight, experience and good marketing and business strategies, the adverse impact of any price fluctuation can be minimised. The Group produces a wide range of products to meet its customers' requirements and over the years, the Group has developed a well diversified clientele base covering various sectors of the manufacturing industry such as electronics and electrical appliances, automobile, audio-visual components, tools and dies, automation equipment and progressive strips layout. Hence, the Group's risks are minimised should any product or market suffer from a decline in selling prices or demand. Although the Group seeks to limit this risk in the above manner, no assurance can be given that the Group will continue to be able to source its raw material at competitive prices or that any change to the supply and demand of its products will not have material adverse impact on the Group's business.

15. Dependency on Particular Industries and Sector

Players in the metal forming industry are dependent on the supply and demand of industries that consume metal parts in their finished products, such as the electrical and electronics ("E&E") industry and the automotive industry. The E&E industry showed strong performance in both production and exports in 2002. In the automotive sector, automobile companies are moving towards outsourcing of motor vehicle parts and accessories production. The production of motor vehicle parts and accessories recorded an output of RM4.9 billion in 2003 based on the Monthly Manufacturing Statistics, June 2004, Department of Statistics. The Group plans to mitigate the dependency on particular industries by diversifying its sales and diversifying its business geographically to Vietnam. However, there can be no assurance that a decline in either the E&E or automotive industries will not adversely impact the Group's operating results.

16. Risks Associated with Technological Change

The risks involved with technological changes are the obsolescence of current technology and that the Group is unable to maintain and enhance its technological capabilities and successfully anticipate or respond to technological changes in manufacturing processes in a cost-effective and timely basis. The KHIB Group acknowledges the said risks and is continuously exploring other areas of technological improvement. In the event that the Group requires new technologies and equipment to remain competitive, the development, acquisition and implementation of those technologies and equipment may require the Group to make significant capital investments. The emergence of new industry standards which reduces the use of metal parts may also render some of the Group's products unnecessary. There can be no assurance that the Group's process development efforts will be successful or that the emergence of new technologies, industry standards or customers' requirements will not have a material adverse effect on the Group's business.

17. Political, Economic and Regulatory Considerations

Given the nature of the industry in which the Group operates, its operations are closely linked to the political, economic and regulatory conditions in Malaysia, Vietnam and other countries where the Group has interests or intends to set up operations in the future. Any adverse developments or uncertainties in the political, and/or international events, economic and regulatory conditions in Malaysia, Vietnam and other countries may materially and adversely affect the performance of the Group. Political, economic and regulatory uncertainties include risks of war, expropriation, nationalisation or nullification of existing contracts, changes in interest rates, global economic recession and methods of taxation and currency exchange. There can be no assurance that such adverse political, economic and regulatory factors will not materially affect the KHIB Group's business and performance.

18. Related Party Transactions and Conflict of Interests

KHIB and its subsidiaries have entered into related party transactions and transactions which may give rise to conflict of interest as described in Sections 1 and 2, Part X of this Prospectus. In addition, KHIB expects that it will in the future enter into other transactions with related parties. These transactions may involve conflicts of interest which may adversely affect KHIB.

Upon Listing, related party transactions will have to be carried out on an arms-length basis and on terms which are not more favourable to the related parties than those generally available to the public. Any related party transactions entered into by KHIB and its subsidiaries subsequent to Listing will be subject to the Listing Requirements of Bursa Securities and the Malaysian Code on Corporate Governance for Independent Directors in the Board of Directors and the Audit Committee. However, there can be no assurance that competition will not arise or that there will not be any other direct or indirect competition and conflict of interests in relation to transactions or any other areas of business undertaken by KHIB and its subsidiaries and these related parties.

19. Operational Risks

The Group faces certain operational risks inherent in the metal forming industry which include, amongst others, outbreak of fire, energy crisis and shortage of water supply. The Group has taken various steps to reduce the risk associated with fire by having proper fire-fighting systems in the factories. Employees are trained on the use of these equipment as well as basic fire-fighting techniques and regular fire drills are jointly conducted annually with the fire department. The Group has taken insurance coverage to mitigate its financial losses in the event of an outbreak of fire and/or energy crisis.

Furthermore, the Group has 2 backup generators in its factories to mitigate the impact of energy crisis on its operations and services to its customers. The Group also ensures that its factories are installed with water tanks to store sufficient water reserves to mitigate any disruption in the water supply. Although there has not been any major disruption to the Group's business operations as a result of an outbreak of fire, energy crisis or shortage of water, and the Directors of the Company have taken reasonable steps to mitigate the operational risk, there can be no assurance that there would not be any outbreak of fire, energy crisis or water shortage at the Group's various places of business and that any outbreak of fire, energy crisis or water shortage would not have a material effect on the Group's business and financial performance.

20. Security Threat and System Disruption

The Group's factories and KHA's retail outlet are subject to security threat. Any break-ins or damage to the machines may affect the revenue and increase the cost to the Group. The Group's insurance may not adequately cover liabilities arising from claims relating to the losses incurred by break-ins or damage to the machines. To ensure security is not compromised at any time, the Group has installed close circuit televisions in Factory A, Factory B and at KHA's retail outlet. The Group also has a security guard at each of the Group's factories. In addition to physical damage, systems disruptions may occur as a result of breakdowns to the systems. Therefore, the Group has installed back-up systems to ensure any damage inflicted may be rectified with minimum disruption to the operations. There can be no assurance that break-ins, damage to the machines or system disruptions would not have any adverse material effect on the Group's business and financial performance.

21. 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 investments 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.

22. Profit Forecast

This Prospectus contains the consolidated profit forecast of the Group for the financial year ending 30 April 2005 that has been based on assumptions that are subject to uncertainties and contingencies but which the Directors of the Company believe to be reasonable. Owing to the inherent uncertainties underlying the consolidated profit forecast and given that events and circumstances do not always occur as expected, there can be no assurance that the consolidated profit forecast contained in this Prospectus will be achieved and actual results may be materially different from the consolidated profit forecast. Investors are deemed to have read and understood the assumptions and uncertainties underlying the consolidated profit forecast herein contained.

23. Implementation of AFTA

With the initiation of the Common Effective Preferential Tariff scheme under AFTA, tariff on goods traded within the region, which meet a 40% ASEAN content requirement, will be reduced to between 0-5%. The Directors of the Company believe that with the advent of AFTA, foreign car manufacturers would need to have at least 40% local content to enjoy preferential import duty. This will benefit the metal forming industry in ASEAN countries as a whole, as some foreign car manufacturers have already begun operation of their manufacturing facilities in the ASEAN region. As metal forming and precision machining are supporting industries for car components, prospect of market growth for this industry is promising for the next 5 years.

However, Malaysian players may face tough competition in the car components segment from neighbouring countries such as Thailand and China (which is now a member of the World Trade Organisation). Thailand is encouraging major automobile manufacturers to use the advantages it has to offer i.e. cheap and abundant labour and raw materials to set up manufacturing facilities there.

Therefore, there is no assurance that the influence of AFTA will not have any adverse effect on the Group's business in the future.

24. Forward-Looking Statements

Certain statements in this Prospectus are based on historical data which may not be reflective of the future results and others are forward-looking in nature which is subject to uncertainties and contingencies. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

V. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS

1. INDUSTRY OVERVIEW

1.1 Global Economy

The outlook for the global economy has become increasingly optimistic, following the strong upturn in the second half of 2003. Amidst improved prospects, most growth projections have been revised upwards. For 2004, world output and world trade are projected to grow at a faster pace of 4.1% and 5% to 6%, respectively. The Asian regional economies' share in global trade has also increased. Measured in terms of the share of world export of goods and services, the region's share has increased from 16.3% in 1994 to 19.6% in 2002. Favourable export performance, continued growth in private consumption and expansion in investment are expected to lead to higher growth for the Asian regional economies in 2004.

Amidst a low inflation environment, the growth momentum in the USA is expected to be supported by expansionary monetary and fiscal policy that have been in place for some time, as well as productivity gains, investment and inventory rebuilding. Growth in the euro area is expected to recover gradually as expansionary fiscal policies continue to be adopted in major euro area economies. While the economic recovery in Japan is affected by long-term structural problems, deflationary pressures have begun to ease and signs of sustainable recovery have emerged since the second half of 2003. In the United Kingdom, economic growth is expected to remain resilient, underpinned by public and private consumption.

(Source: BNM Annual Report 2003)

1.2 Malaysian Economy

The Malaysian economy is expected to strengthen further in 2004, building on the strong growth momentum in the second half of 2003 and brighter prospects for global growth in 2004. Real gross domestic product is expected to expand by 6% to 6.5% compared to 5.2% in 2003, underpinned by stronger domestic demand and reinforced by more favourable external demand. Growth will mainly be private sector-driven, while the public sector gradually consolidates. The growing consumer and business confidence since the second quarter of 2003, strengthened economic fundamentals and the positive impact of pro-growth fiscal and monetary measures are expected to mutually reinforce robust consumer spending and the upturn in private investment activities.

The projections for growth in 2004 are based on stronger global economic growth of 4.1% and led by synchronised recovery across all regions, an upturn in the global electronics cycle and firm prices for crude oil. With the growth in Asia stronger than the global average, Malaysia is also expected to benefit from the continued expansion in intra-regional trade. The expectation of the stronger pace of growth is also premised on the strength and dynamism of the private sector performance, especially the strength of the upturn in domestic investment. Evidence of higher new investments and capacity expansion are indicative that the recovery in economic growth is sustainable. While possible downside risks remain, the strong underlying fundamentals will provide strong foundations for economic resilience and future growth.

(Source: BNM Annual Report 2003)

1.3 Malaysian Manufacturing Industry

In the manufacturing sector, ongoing structural shift has become more evident as the sector's competitive advantages adjust from labour-intensive to higher technology-driven manufacturing processes. Greater efficiency in the use of resources is being realised through manufacturing companies operating more at a regional level, as seen in the relocation of some of the more labour-intensive industries to lower-cost countries. Going forward, the manufacturing sector will continue to move away from labour-intensive production and give greater emphasis to higher value added production with knowledge-based labour of higher productivity and skills. Value added in the manufacturing sector is projected to pick up further to 10.2% in 2004 as compared to 8.2% in 2003, supported by the pick up in the global electronics industry and improved domestic demand.

Growth in the electronics industry would be driven mainly by the wireless and personal computer ("PC") markets, due to rising demand for wireless applications as well as the PC replacement cycle, as companies invest again following their huge spending prior to the year 2000 (Y2K) period. Consonant with the pick up in the global electronics industry and the spillover effects on the chemical products industry, growth in the export-oriented industries is projected to expand at a more rapid rate of 13.8% in 2004 as compared to 11.9% in 2003. Similarly, growth in the domestic-oriented industries is expected to strengthen to 8.3% in 2004 as compared to 6.1% in 2003, due to improved demand for motor vehicles and construction-related materials.

(Source: BNM Annual Report 2003)

1.4 Fabricated Metal Products Industry

The fabricated metal products industry is generally domestic oriented as it mainly offers services within the domestic arena. It covers the manufacture of metal structures for oil and gas, construction and manufacturing industries, tanks, drums and metal boxes, tin cans, metal furniture and fixtures, wire and wire products, non-ferrous metal products and other products. The products sale is a derived demand from other industries. Therefore, the growth of the industry is therefore solely dependent upon other industries.

At the low end of the industry involving simple fabricated process, there are many blacksmiths, foundries and other establishments supplying simple fabricated metal products such as metal doors, window grilles, simple pumps, screws, fasteners, etc to the market place. This market segment requires simple processing machinery.

Moving up the sophistication of the fabrication process is the manufacture of value-added products such as air-conditioner cabinets, gas burners, as well as high precision metal products like jigs, fixtures, tools and die moulds, computer disk-drive components or other automation equipment and engineering components. Industrial goods that include, among others, boilers, heat exchangers and air-compressors, can be obtained locally. Players have been inching up to engage in higher value metal fabrication processes by utilising and researching into more advance processes. There are already players in the local market that are capable of fabricating the processing and refining equipment for the primary industries in Malaysia such as rubber, cocoa, tin, palm oil, etc, which usually involves higher level of processing sophistication and expertise.

The fabricated metal products industry has evolved from supporting traditional resource-based and agro-based industries to higher value-added and technologically advanced manufacturing industries. In the fourth quarter of 2003, the major group of fabricated metal products, namely, equipment except electrical contributed 66.8% increase in manufacturing output. Export value recorded a strong growth during the period of 1997 to 2002, achieving an impressive compounded annual growth rate of 9.8% during the period of 1997 to 2002. This was mainly attributed to the improved price competitiveness resulting from the depreciation of the RM.

The majority of exports of metal fabrication products were made to Singapore, Japan, Italy, USA, Hong Kong and China.

The fabricated metal products industry is fragmented with various categories of industry players, as the market is crowded with players manufacturing products ranging from simple fabricated products such as nuts and bolts to highly specialised machinery. According to the Department of Statistics, there are approximately 4,705 companies in operation in the Malaysian fabricated metal products industry in 2003. Metal fabricators can be broadly segmented into three different groups, producers for internal consumption or consumption by a subsidiary company, manufacturers of a diverse range of products for consumption in a broad range of industries, and single product manufacturers. Single product manufacturers are often highly specialised and a good example would be players in the automotive parts, which are segmented under a special category by itself.

Despite the level of automation and maturity of the industry, which comprises a large number of automated plants and equipped with sophisticated metal forming machinery and equipment, the fabricated metal products industry remains highly domestic driven.

In general, the fabricated metal products industry in Malaysia may be characterised as highly competitive. Nevertheless, the industry includes highly specialised metal fabricators such as those involved in fabrication of specialised machinery, products manufactured from investment casting and cold/hot forged products and those which are normally specialised within its own niche market. Typically, specialised metal fabricators require heavy investments and technology capabilities. For example, according to Malaysia Industrial Development Authority, a new company involved in non-ferrous metal and stainless steel forged and cast parts (with technology from Italy) has allocated RM10 million as initial investment in 2002.

The fabricated metal products industry is solely dependent upon the demand from other industries. For example, the construction industry is fundamental to the demand of the fabricated structural metal industry; likewise, the demand for general component-producing industries such as screw machine products, industrial fasteners, is directly related to the automobile and public works construction activities. The life cycle of the different sub-sectors within this industry is thus dependent on the related industries where the demand is derived from.

The local automobile industry, specifically the car parts/accessories segment has been providing tremendous opportunities to the fabricated metal products players. The local fabricated car parts/accessories industry segment has benefited from the Government's urge on Perusahaan Otomobil Bhd and Perodua Auto Corporation Sdn Bhd to produce Malaysian-made cars with high local content. With more certainties in the new tariff structure coupled with positive economic outlook, growth of the automobile industry is expected to rise in 2004. The production of motor vehicle parts and accessories recorded an output of RM4.9 billion in 2003. The year 2003 also saw the entry of many new models and brands into the market. This positive trend has reflected the strengthening of market sentiments by the producers and consumers.

In recent years, a common substitute for metal is plastics. Plastic injection moulding is a process that can be used to produce electronics or automotive parts. However, plastics are not suitable to replace metal in all E&E parts especially computer parts. Metal is still used widely in consumer electrical appliances, office equipment and machinery. This is because metal has the advantage of strength, thickness, capacity and durability.

(Source: Executive Summary Report by the Independent Market Researcher dated 13 September 2004, prepared for inclusion in this Prospectus)

Production in the fabricated metal products industry increased further in 2003, reflecting higher production of structural metals, wire and wire products as well as tin cans and metal products. The expansion was supported mainly by on-going activity in the construction sector and increased demand for packaging materials from the food processing industry. On the other hand, production of brass, copper and aluminium declined due to the lower demand from the electrical products industry.

(Source: BNM Annual Report 2003)

Government legislation, policies and incentives

As with other manufacturing sectors, the major incentives for manufacturers of fabricated metal products are tax-related ones such as the Pioneer Status, Investment Tax Allowance ("ITA") and Reinvestment Allowance. Eligibility for Pioneer Status or ITA is based on certain priorities, including the levels of value-added, technology used and industrial linkages.

Besides the above, there are also indirect tax incentives in the form of exemptions from import duty, sales tax, excise duty, as well as export incentives. To increase the supply of skilled and semi-skilled labour, the government is considering the provision of financial assistance to the private sector for the establishment of technical and vocational centres.

Offset arrangements are part of contract agreements designed to help purchasers obtain the desired transfer of technology and provide local employment. They include co-production, licensed production, subcontract, technology transfer, training and counter purchase. Small and medium size industry in the machinery and engineering equipment group is one of the target groups for these offset arrangements. The Government will facilitate and steer the implementation of offset programmes as well as provide information on critical technologies, potential companies and funding arrangements.

Regulations for noise, water and marine pollution control have been developed under Malaysia's principal environment legislation; the Environment Quality Act, 1974 which is administered by the Department of Environment. Companies that perform metal fabrication activities are subject to a number of regulations due to cleaning materials and chemicals used in this industry. For example, for hazardous toxic waste, a facility that generates, stores, transports, treats or disposes of scheduled waste is subject to several regulations such as Environmental Quality (Scheduled Wastes), Prescribed Premises, Scheduled Waste Treatment and Disposal Facilities Regulations of 1989.

An important macro development is the tariff deregulation under the Common Effective Preference Tariff ("CEPT") within AFTA. Tariffs for products from within ASEAN member countries are capped at between 0% and 5% under CEPT. Products will be deemed to be from ASEAN member countries if 40% or more of its content originates from any member country.

(Source: Executive Summary Report by the Independent Market Researcher dated 13 September 2004, prepared for inclusion in this Prospectus)

1.5 Precision Metal Forming Industry

The precision metal forming industry in Malaysia is a subset of the broader engineering supporting industry which covers a broad range of activities or applications such as sheet metal forming, forging, metal stamping and other metal fabrication activities. Its application transcends almost all of the manufacturing sectors at large. Many of the engineering supporting industries evolved from backyard cottage industries, which sprouted due to demand for cheaper components and spare parts.

The most common and widely used application in the precision metal forming industry is metal stamping. Metal stamping is an application that involves hydraulic or mechanical presses that apply force to sheet metal through hard tooling and producing a variety of parts. Precision metal forming or sometimes referred to as metal stamping process, covers machines such as bending machines, hot and cold forming machines, presses and special purpose forming equipment. There are a number of stamping facilities equipped with machining operations. These machining activities involve metal parts that are added with bolts or threads and other secondary operations such as degreasing, welding and sub-assembly.

Hydroforming is an alternative process in precision metal forming in which the metal tube blank is formed into a particular shape using internal water hydraulic pressure. Various shapes and sizes of holes can be punched almost anywhere in the metal tube during the hydroforming process. However, hydroforming process can only be used in certain metal parts and is not suitable for miniaturised metal forming parts since this technique is only applicable in producing whole components made from multiple stampings.

The Malaysian precision metal forming industry itself is an important industrial contributor to the Malaysian economy. It is a supporting industry to the E&E, automotive, industrial equipment machinery and household appliances sectors. However, apart from producing simple shears, guillotines, benders and power presses, a large portion of the industry requirements for machinery is met by imports. Therefore, the Government encourages incorporation of new technologies, R&D and engineering design of machinery and equipment to achieve world class manufacturing standards to be in line with vision 2020.

The precision metal forming industry consists of an estimated 300 companies comprising mostly small and medium sized companies that serve mainly the automotive and E&E sectors. Most of the precision metal forming companies' equipment have a lifespan of between 5 and 20 years depending on their quality, usage and type of machines. Customers of metal stamping parts especially precision stamping are normally large companies or MNCs in the automotive, consumer appliances, electronics and computing industries.

The precision metal forming industry is generally highly competitive and fragmented, having a large number of players servicing different industries. Most of the existing players are well established in the market. Competition is mainly based on price, timely delivery and capacity. The level of competition also depends on the competitiveness of the industries that the stamping players supply to customers. In the E&E sector, there are many parts that use metal fabricated products. Some parts especially complex computer parts or automotive parts require high level precision technology while the other simple parts do not require stringent standards of quality.

Precision metal forming is an established industry especially in the Western Corridor of Malaysia where fierce competition arises due to escalating raw material costs and pricing pressures. Larger companies have the ability to invest in large, reliable and complex machine tools that are expensive and able to meet specific customers' requirements up to a very precise tolerance level ranging from 5 to 10 microns. The type of machinery used depends on the types of raw materials used and products produced. Imported machine tools especially from Japan are usually known to be more reliable, durable and are capable of meeting customers' quality standards. Although precision metal forming is an established industry, there is still room for further development of more advanced activities such as transfer stamping, high-speed stamping and secondary processes.

Generally, the precision metal forming industry is segmented into different groups of players from large precision metal forming companies, medium to many other small independent operators. The smaller operators usually service small companies or provide stamped parts on a smaller scale. These operators were found to employ only 5 to 30 production workers, which are subject to the volume of orders and number of machines in operation.

Most of the products are made to cater to the local market whereas the rest are directly or indirectly exported. The larger companies are the ones actively involved in export activities as they are able to operate on a mass production scale and have proper quality control facilities to meet the demands of MNC customers. These companies will continue to secure contracts from MNC customers as long as customers are satisfied with the products and specifications are met from time to time. The industry also serves local projects for the automotive sector such as Perodua Sdn Bhd and Perusahaan Otomobil Bhd.

Almost all players in the market are in the original equipment manufacturing ("OEM") business where customers are mainly from industries producing E&E and automotive products as well as other appliances. Metal stamped parts that are produced in the E&E industry such as computer parts or electronic parts require higher precision levels. Some of the stamping producers practice stringent quality control procedures to minimise product defects and avoid product recalls.

The precision metal forming industry is estimated at RM1.37 billion in 2003. The top players ranked by turnover are Kris Components Bhd, CS Metal Industries Sdn Bhd, PHN Industry Sdn Bhd and Jotech Holdings Bhd. These companies are involved in the manufacturing of precision components and parts to support the E&E, automotive and other engineering supporting industries. KHI is one of the major players in the precision metal forming industry with an increase of about 16% of consolidated annual turnover from RM78 million in financial year ended 30 April 2002 to RM90.2 million in financial year ended 30 April 2003. It ranked 7th in the industry accounting for 6.6% of total market share by turnover in 2003. KHI's main competitive advantage lies in its technological capabilities in producing automotive parts using cold forging technology. In addition, KHI is also capable of producing high volumes of stamped, machining and sub-assembly parts and is widely recognised for its quality and reliability among customers. It is known as a one-stop metal components and machining centre supported with secondary processes.

(Source: Executive Summary Report by the Independent Market Researcher dated 13 September 2004, prepared for inclusion in this Prospectus)

2. PROSPECTS AND FUTURE PLANS

KHIB Group has set out its long term plans to strengthen its position and aggressively seek new business ventures to capture a larger market share and broaden its revenue potential through integration of manufacturing facilities, vertical diversification, overseas expansion plans, building strategic alliances and joint-ventures as well as expanding its services in the automotive market.

The Group intends to capitalise on the increasing trend of MNCs outsourcing their manufacturing process by broadening its contract manufacturing capabilities. The successful relationship with MNCs has demonstrated the Group's ability to acquire and achieve the necessary standards and quality required by MNCs. This is exemplified by the fact that most of the Group's MNC customers have maintained an average of 11 years relationship with KHI.

The KHIB Group is expanding its local manufacturing facility by constructing an additional new factory with a land area of 8,195 sq. m. at Seri Kembangan, Serdang, Selangor Darul Ehsan. The new factory will be used for precision machining operations and to house part of the KHIB Group's R&D facilities. The new factory will cost RM12 million, out of which RM8 million will be financed by bank borrowings and RM4 million will be financed by internally generated funds. The certificate of fitness for occupation for this factory was obtained on 26 August 2004.

Going forward, KHIB intends to diversify vertically into servicing the end user markets through its subsidiary, KHA. Through market research and feasibility, the Group's vertical integration into the retail segment is expected to contribute to the Group's revenue streams. It will also enable KHIB to keep up-to-date with the latest market trends. KHA is principally involved in trading in electrical and electronic products, and home appliances. Currently KHA has a retail outlet in Malaysia located at Seri Kembangan and has plans to set up an additional outlet in Selangor Darul Ehsan. The KHIB Group's vertical integration is part of its future growth strategy to be a one-stop precision metal forming company in order to provide higher support for its customers.

The KHIB Group has plans to establish a manufacturing base in Vietnam under one of its subsidiaries, KHMV. The key project will focus on sheet metal stamping activities and parts assembly. The new factory has a built-up area of 3,200 sq. m. and the factory is scheduled to be completed by the third quarter of 2004. The production operation which is currently operating at a rented premise in Vietnam will be transferred to the new factory once construction is completed. The new factory including the land it is located on in Vietnam is expected to cost approximately RM6.7 million which will be financed by bank borrowings. Production operation commenced in June 2004. KHMV has a budget of approximately RM10 million for investment in machinery and manufacturing equipment over the next 2 financial years ending 30 April 2006. The KHIB Group intends to capitalise on its technical know-how and the low labour cost in Vietnam to expand into the regional areas of Vietnam.

The KHIB Group plans to continue exploring strategic alliances and joint-venture opportunities to become a major market player in the precision metal forming industry. The Group has established a joint-venture project with Muramoto Asia (S) Pte Ltd, namely, KHMV in Vietnam and has an associated company which is a subsidiary of Hirotako Holdings Berhad, namely, HKH in Malaysia. The KHIB Group also plans to explore business opportunities in Vietnam by leveraging on the distribution network of KHMV. In addition, the KHIB Group plans to expand its existing network by seeking collaborations with foreign automotive producers and target major worldwide automotive players. The KHIB Group employs "channel-marketing", (personalised sales visits) in the course of expanding its network of distribution channels, as the nature of its products are semi-finished products. In line with its listing exercise, the KHIB Group plans to focus on building its distribution networks overseas, which will be accompanied by its corporate branding exercise once a stronger relationship is built with its distributors.

The KHIB Group is exploring opportunities to expand its product range and market presence. With a strong footing in the precision metal forming industry, the KHIB Group plans to expand into other markets especially the automotive industry in the ASEAN region. The local car parts/accessories segment has been providing tremendous opportunities to the fabricated metal products industry. The manufacture of motor vehicles parts and accessories recorded an average annual growth rate of 21% from 1999 to 2003. There are tremendous opportunities in the local and overseas automotive market segment as ASEAN is a key strategic automotive market. Car sales have been increasing in this region. By the second half of this decade, ASEAN will be Asia Pacific's third largest automotive market.