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## 4. INFORMATION ON OUR GROUP

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### 4.1 History

The history of our cookware business began in 1957 when Mr Hsiao Tsai Sheng, our founder, started the business of manufacturing stainless steel cookware in Taiwan. Under his leadership, our stainless steel cookware business flourished internationally. We have a history of product innovations since our business started in 1957. Mr Hsiao Tsai Sheng, who was then responsible for product R&D, had introduced several new forms of stainless steel cookware in Taiwan such as pressure cookers with safety valves, sandwich-bottom pots, pans and woks, and the usage of multi-ply stainless steel clad metals as the raw materials for high-end cookware.

NHC was incorporated in Malaysia in 1989 to take over the Hsiao family's cookware manufacturing operations in Taiwan which ceased in 1990. In 1990, we constructed a new factory in Malaysia and in the following year, NHC commenced business operations in its new headquarters and manufacturing centre located at No. 45 and No. 47, Jalan Taming Dua, Taman Taming Jaya, Off Jalan Balakong, in the state of Selangor. Our Directors, with their wealth of experience in the premium cookware industry, commenced training local employees in all aspects of the business operations, ranging from R&D, sales and marketing, production, quality control, purchasing and management.

In 1992, NHC obtained its SG (Safety Goods) Mark from the Consumer Product Safety Association of Japan for the export of our pressure cookers to the Japanese market, and in 1996, NHC obtained UL (Underwriters Laboratories) certification from USA on its pressure cookers. Thereafter, in 1999, NHC obtained ISO 9001 certification from SGS Yarsley International Certification Services for its quality management system.

In 2000, we diversified our product base and started manufacturing stainless steel convex mirrors, which are used to replace the conventional acrylic or glass convex mirrors used for traffic safety and security purposes, under our Convex Mirror Division. We utilise our proprietary polishing process methodology to polish stainless steel until it achieves a mirror-like surface. Our stainless steel convex mirrors are mainly exported to Japan and South Korea.

In 2001, EGAM was formed as a subsidiary of NHC to undertake R&D for the manufacturing of multi-ply stainless steel clad metals. Clad metals are aluminium or copper and stainless steel composite materials which are the main raw materials used in our cookware manufacturing operation. Prior to the setting up of Clad Metals Division through EGAM, we imported clad metals from Switzerland and USA, and were subject to suppliers' pricing, foreign currency risks and long delivery lead times. In 2001, we commenced trial production of clad metals after initial research on the design and types of machinery and raw materials required. Today, besides supplying to NHC all its multi-ply stainless steel requirements, EGAM also exports clad metals to other cookware and electrical and electronics manufacturers overseas.

In 2002, we undertook research on the manufacturing of non-stick cookware using PTFE technology. We successfully set up the production line and installed the necessary machinery in that year. Production of a new range of stainless steel cookware with non-stick coatings commenced in the same year. NHC received its certificate of factory registration and SG IH certification for the export of induction cookware to Japan from the Consumer Product Safety Association of Japan in 2002.

In 2004, we started to apply shear forming technology in our production of 3-ply and 5-ply frying pan for the Japanese market to reduce raw material costs and weight of cookware. We also completed R&D and started to mass produce 2-ply stainless steel rice cooker bowl with induction capability and non-stick coating for the high-end Japanese market.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

We derive synergistic benefits from our subsidiaries, with NHC as our core R&D and manufacturing arm. EGAM, with its clad metals production, enables us to have a reliable source of high quality raw materials. EGAM also provides product diversification to our Group with its stainless steel convex mirrors business. With our synergistic upstream and downstream activities and R&D capabilities, our Directors believe that we are well-positioned to offer OEM/ODM services and high quality products to our customers in the export markets.

##### 4.2 Share Capital

As at the date of this Prospectus, our authorised share capital is RM100,000,000 comprising 500,000,000 Shares, of which RM40,497,002 comprising 202,485,010 Shares have been issued and fully paid-up.

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

Date of allotment	No. of shares allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
22.05.2004	2	1.00	Subscribers' shares	2
24.02.2005	10	0.20	Sub-division of shares	2
16.03.2005	202,485,000	0.20	Shares issued pursuant to the Acquisition of NHC	40,497,002

##### 4.3 Listing Scheme

As an integral part of our listing and quotation for our Shares on the Second Board of Bursa Securities, we undertook a restructuring scheme, which was approved by the following authorities:

- (a) MITI vide its letters dated 2 September 2004, 22 February 2005 and 20 May 2005;
- (b) SC vide its letter dated 8 February 2005; and
- (c) FIC (through the SC), vide the SC's letter dated 8 February 2005.

Approval-in-principle has been obtained from Bursa Securities on 23 August 2004 for our admission to the Official List of Second Board of Bursa Securities, the listing of and quotation for our Shares and the listing of and quotation for our new Shares to be issued pursuant to the exercise of options under our ESOS on the Second Board of Bursa Securities.

Our restructuring scheme entails the following:

##### (i) Sub-Division of Shares

As at the date of incorporation, our issued and paid-up share capital was RM2 comprising 2 ordinary shares of RM1.00 each. On 24 February 2005, we undertook a sub-division of the par value of our ordinary shares from RM1.00 to RM0.20. Consequently, our issued and paid-up ordinary shares were sub-divided from RM2 comprising 2 ordinary shares of RM1.00 each into RM2 comprising 10 ordinary shares of RM0.20 each.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### (ii) Distribution of Dividend

On 15 March 2005, our subsidiary, NHC declared a tax-exempt dividend of RM6 million from the profits generated for the financial year ended 31 December 2004.

Based on the audited financial statements of NHC for the financial year ended 31 December 2004, the consolidated PAT of NHC is RM7.8 million. The distribution of the above tax-exempt dividend by NHC did not affect the adjusted consolidated NTA of NHC as at 31 December 2003, which was the basis used by NHR in arriving at the purchase consideration for the Acquisition of NHC.

##### (iii) Incorporation of Revaluation Surplus

A revaluation was carried out by a firm of independent professional valuers, Henry Butcher Malaysia Sdn Bhd, to determine the market value of the landed property of NHC. The revaluation surplus of RM3,147,000 arising from the above revaluation is derived as follows and shall be incorporated into the financial statements of NHC for the financial year ending 31 December 2005.

Property	NBV as at 31.12.2003 RM'000	Open market value <sup>^</sup> RM'000	Revaluation surplus RM'000
H.S.(D) 23490 & H.S.(D) 23491, Mukim of Kajang District of Ulu Langat, State of Selangor Darul Ehsan	12,933	16,080	3,147

**Note:**

<sup>^</sup> Based on the Valuation Report dated 7 May 2004 prepared by Henry Butcher Malaysia Sdn Bhd.

##### (iv) Acquisitions

On 9 July 2004, we entered into conditional share sale and purchase agreements (as supplemented by supplemental share sale and purchase agreements dated 14 December 2004) in respect of the acquisitions of NHC and EGAM, as follows:

- (a) acquisition of 13,764,706 ordinary shares of RM1.00 each representing the entire equity interest in NHC for a purchase consideration of RM40,497,356 to be fully satisfied by the issuance of 202,485,000 new Shares at approximately RM0.20 each; and
- (b) acquisition of 2,550,000 ordinary shares of RM1.00 each representing 51% equity interest in EGAM for a cash consideration of RM2,550,000.

The purchase consideration for the Acquisition of NHC was arrived at based on the adjusted audited consolidated NTA of NHC as at 31 December 2003, after taking into consideration new issue of shares subsequent to financial year ended 31 December 2003 and the revaluation surplus as follows:

#### 4. INFORMATION ON OUR GROUP (Cont'd)

	<b>RM</b>
Audited consolidated NTA of NHC as at 31 December 2003	36,743,000
Add: New issue of shares	764,706
Revaluation surplus	3,147,000
Less: Deferred taxation arising from revaluation	<u>(157,350)</u>
Adjusted audited consolidated NTA	<u>40,497,356</u>

The purchase consideration for the Acquisition of EGAM was arrived at based on the investment cost of EGAM as at 31 December 2003.

Pursuant to the Acquisition of NHC, we have issued and allotted our new Shares to the vendors in the following manner:

	No. of shares held in NHC	%	No. of consideration shares	%
<b>Vendors of NHC</b>				
- Hsiao Tsai Sheng	2,600,000	18.9	38,247,166	18.9
- Hsiao Liu Lee	2,600,000	18.9	38,247,166	18.9
- Hsiao Chih Jen	2,600,000	18.9	38,247,166	18.9
- Hsiao Chih Chien	2,600,000	18.9	38,247,166	18.9
- Hsiao Chih Che	2,600,000	18.9	38,247,166	18.9
- Te Tiam Sing @ Tay Kiam Seng	382,353	2.8	5,624,585	2.8
- Teh Hock Chuan	152,941	1.1	2,249,831	1.1
- Kek Pei Chin	229,412	1.6	3,374,754	1.6
<b>Grand Total</b>	<u>13,764,706</u>	<u>100.0</u>	<u>202,485,000</u>	<u>100.0</u>

The Acquisitions were completed on 16 March 2005. On 17 March 2005, the ten (10) subscribers' shares were transferred equally to Hsiao Chih Jen and Hsiao Chih Chien.

Upon completion of the Acquisition of NHC, our issued and paid-up share capital increased from RM2 comprising 2 Shares to RM40,497,002 comprising 202,485,010 Shares.

(v) **Offer for Sale and Public Issue**

**Offer for Sale**

In conjunction with the Public Issue, the Offerors will undertake an Offer for Sale of 67,500,000 Shares representing 30% of our enlarged issued and paid-up share capital to Bumiputera investors approved by the MITI at the Offer Price. The Offer for Sale is a subject of this Prospectus. The Offerors and the number of Offer Shares to be offered by the respective Offerors are as follows:

Offerors	No. of Offer Shares	% of enlarged share capital
Hsiao Tsai Sheng	13,500,000	6%
Hsiao Liu Lee	13,500,000	6%
Hsiao Chih Jen	13,500,000	6%
Hsiao Chih Chien	13,500,000	6%
Hsiao Chih Che	<u>13,500,000</u>	<u>6%</u>
	<u>67,500,000</u>	<u>30%</u>

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##### **Public Issue**

The 22,515,000 new Shares to be issued pursuant to the Public Issue which represent approximately 10% of our enlarged share capital are to be issued to the following parties:

- (a) 15,000,000 new Shares representing approximately 6.7% of our enlarged share capital will be reserved for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside for Bumiputera individuals, companies, societies, co-operatives and institutions; and
- (b) 7,515,000 new Shares representing approximately 3.3% of our enlarged share capital will be reserved for application by our Directors, eligible employees and business associates.

The 22,515,000 new Shares to be issued pursuant to the Public Issue will rank *pari passu* in all respects with our existing Shares in issue except that they shall not rank for any dividends, rights, allotments and/or distributions declared or paid prior to the allotment thereof.

Upon completion of the Public Issue, our issued and paid-up share capital will increase from RM40,497,002 comprising 202,485,010 Shares to RM45,000,002 comprising 225,000,010 Shares.

##### **(vi) Listing and Quotation**

Thereafter, we will seek admission to the Official List of Bursa Securities and the listing of and quotation for our entire enlarged issued and paid-up share capital on the Second Board of Bursa Securities.

##### **(vii) ESOS**

Bursa Securities has, vide its letter dated on 23 August 2004, approved-in-principle the listing of and quotation for our new Shares to be issued pursuant to the exercise of options under our ESOS on the Second Board of Bursa Securities. On 14 June 2005, our shareholders have adopted the ESOS for the benefits of our eligible Directors and employees. The ESOS is effective from 15 June 2005. The ESOS allows for granting of options to subscribe for our Shares of up to 15% of our issued and paid-up capital at any one time.

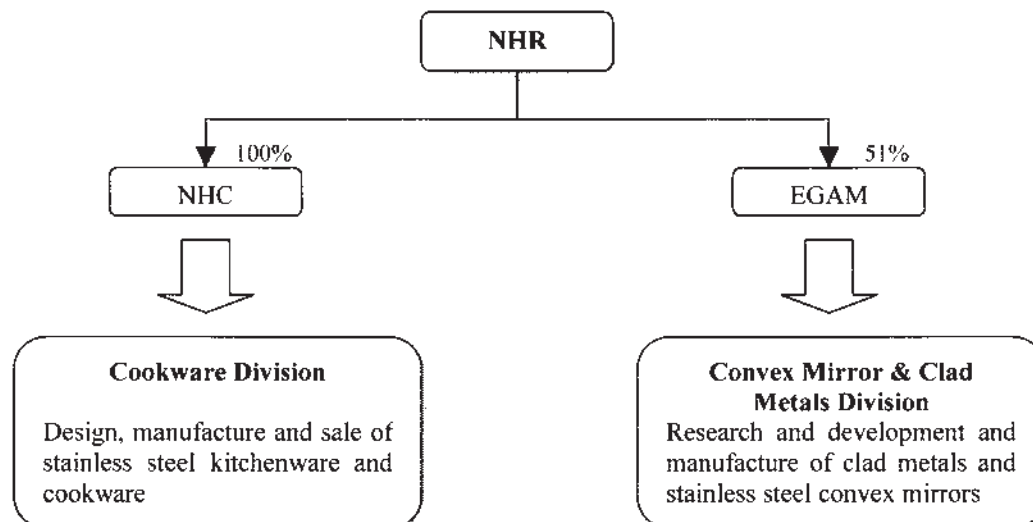
The ESOS shall be for a duration of five (5) years during which options shall be offered to our Directors and eligible employees in accordance with the ESOS By-Laws.

Our ESOS By-Laws are set out in Section 14 of this Prospectus.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### 4.4 Business Overview

Our corporate structure and business activities as at the date of this Prospectus are as follows:



We export our products to countries such as USA, Japan, South Korea, Taiwan, Hong Kong, the Philippines, Indonesia, Canada and Europe. Export sales accounted for approximately 92% of our revenue for the financial year ended 31 December 2004.

##### 4.4.1 Principal Products and Services

Our products are segregated into five (5) broad categories, as follows:

- (a) premium multi-ply stainless steel cookware;
- (b) pressure cookers;
- (c) kitchen accessories;
- (d) stainless steel convex mirrors; and
- (e) clad metals.

##### (a) Premium Multi-Ply Stainless Steel Cookware

We manufacture high quality premium multi-ply stainless steel cookware. Our cookware have aesthetically pleasing design, are durable, and are manufactured using multi-ply stainless steel, which is clad metals comprising layers of high grade stainless steel and aluminium. The usage of clad metals and our high-end multi-ply stainless steel cookware differentiate us from the other cookware manufacturers in Malaysia. With our R&D capabilities, we design and manufacture various cookware such as woks, pots, pans and rice cooker bowls. Our products are further segregated into consumer and commercial ranges.

Woks are traditional Chinese cookware used mainly in the Chinese markets, including the People's Republic of China, Taiwan, Hong Kong and Malaysia. Our woks comprise various diameters ranging from 28 cm to 40 cm. Pots sizes vary from 16 cm to 26 cm in diameter, whereas pan sizes vary from 22 cm to 28 cm in diameter.



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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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We design and manufacture a range of stainless steel cookware for commercial usage, such as restaurants and hotels. They include sauce pans with lid, casseroles with lid, steamer inserts, pasta inserts, double boiler inserts, long handle sauté pan with lid, pressure cookers, woks and stock pots with lid, all of which are designed in various sizes to suit the different cooking methods and demands of professional cooks.

Our range of multi-ply stainless steel cookware is diversified to cater for different target markets and suits the various cooking styles of the Asian and Western markets. Such designs are based on our management's experience in designing and manufacturing high quality multi-ply stainless steel cookware. Our cookware is designed to work on conventional gas and electric cookers, as well as the new induction cookers.

The unique features of our multi-ply stainless steel cookware include the following:

**(i) Multi-ply stainless steel clad metals**

Our stainless steel cookware is manufactured using 2, 3, 5, 7 or 9-ply stainless steel clad metals and 5-ply magnetic stainless steel clad metals. Clad metals made from layers of special grade stainless steel and aluminium bonded together using roll bonding technology enable efficient heat distribution and control. The outer layers of the cookware are made from highly polished, stick- and corrosion- resistant high grade stainless steel that will not discolour or allow odour to leach into the food. A layer of pure aluminium and/or aluminium alloy is sandwiched between the outer layers of high grade stainless steel and extends to the full length of the utensil. The significant advantages of clad metals are that the cookware has even heat distribution due to the excellent heat conductivity of aluminium, is aesthetically appealing with a mirror-like surface and has corrosion-resistant quality of stainless steel.

**(ii) Induction cooking**

Another distinct characteristic of our cookware is the magnetic properties which could be used for induction cooking. This feature is available in our induction cookware range which uses magnetic multi-ply stainless steel clad metals.

Induction cooking is a new method of cooking whereby energy is transferred directly from the induction range lid to the cookware through magnetic energy. This magnetic energy causes the cookware to heat up more efficiently compared to traditional electric or gas top cookers as energy is transferred directly to the cookware, hence reducing heat loss. Induction cookers are safer than gas top cookers as they do not require flammable gas for cooking and have more efficient heat transfer compared to normal electric or gas top cookers. However, induction cookers require cookware with magnetic properties. As such, magnetic multi-ply stainless steel cookware is the most suitable cookware for induction cookers. Insofar as our Directors are aware, induction cooking is currently the cooking trend in countries such as Japan, Taiwan, South Korea, USA and Europe.

**(iii) Non-stick coating**

We manufacture non-stick coating cookware using PTFE sourced from key PTFE suppliers such as DuPont, Whitford and Daikin. PTFE is inert to virtually all chemicals and is considered the most slippery material in existence. We use either a 1 to 3 coat or powder coating process for our non-stick cookware line. Non-stick cookware is popular in many countries due to ease of cooking and cleaning as food does not stick to the cookware.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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**(iv) “Waterless” cooking**

Due to the special design of the body flange and enhanced by a heavy lid, our cookware range has a “water seal” feature which is a unique usage of the water droplets in the body flange to trap heat and water moisture in the wok, pot or pan. The “waterless” cooking concept has advantages over conventional cooking, including cooking food using its own natural juice, thus preserving its original nutrients. When the heat is low, the lower pressure inside the pot sucks the lid down. Condensation along the rim forms a moisture barrier preventing air from entering and moisture from escaping during the heating process, thus locking in flavour and nutrients.

**(v) No rivets or screws**

We use a special welding attachment technology to attach handles and knobs for our cookware range. There is no need for rivets or screws, contact points which provide additional surface for the accumulation of dirt.

**(vi) Air regulating knob**

Some of our cookware are designed with air regulating knob which releases steam after cooking. This will ensure that the food retains its natural flavour.

**(vii) Saves energy and cooking time**

Our cookware range utilises multi-ply stainless steel clad metals which are efficient conductors of heat, thus saving on fuel and time. Low-heat cooking reduces the amount of fuel or electricity used.

**(viii) Mirror polishing**

Our cookware range is highly polished to achieve a “mirror-like” surface for the aesthetic appeal. Our proprietary polishing process enables our cookware to sustain a long lasting polished surface.

**(ix) Multi-stacking feature**

Our cookware range has a unique multi-stacking feature to allow different food to be cooked simultaneously. The usage of multi-ply stainless steel clad metals enables heat to be distributed evenly throughout the stacked cookware with minimal heat loss. This unique feature is only available in the high-end cookware range and requires stringent manufacturing process and quality control to ensure different cookware can be stacked together safely.

We market our cookware under the “Buffalo” brand, which is licensed from Standardworld. We also manufacture cookware under an OEM/ODM arrangement for customers who sell the cookware in their own brandnames. Under an OEM/ODM arrangement, we offer our customers exclusive cookware designs. Some of our customers under the OEM/ODM arrangements include “Mikado” and “Tokado” of Japan, “Tavolaswiss” of Switzerland, “Innova” of USA, “Imaflex” of Philippines and “ET” of Indonesia.



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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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**(b) Pressure cookers**

Our pressure cooker range, with sizes ranging from 3.5 litres to 20 litres, is manufactured for both household and commercial usage. Our pressure cookers are manufactured under strict quality control procedures and conform to safety requirements set by Consumer Product Safety Association of Japan. We believe that we are the only stainless steel pressure cooker manufacturer in Malaysia.

Our pressure cookers have the following unique features:

- Multiple pressure release punchers to ensure higher product safety.
- Single or two stainless steel safety locks on the sides of the pressure cooker with an auto-lock feature to ensure that the pressure cooker is safely locked before pressure builds up. The pressure cooker has a safety clamp which will release the pressure if the user accidentally opens the pressure cooker whilst cooking.
- A safety interlocking system for maximum safety, which will not allow any build-up in pressure if the lid is not closed properly.
- The body and lid are made of high quality stainless steel.
- It has either a thick aluminium sandwiched bottom or full multi-ply stainless steel body for even heat distribution and fuel efficiency on all heat sources.
- Safety features to ensure that the pressure in the cooker is reduced or released before the lid could be opened.
- The cooker has a pressure strength of 4.5 kg/cm<sup>2</sup> which meets the standards set by standards bodies such as SG of Japan and UL of USA.

Stainless steel pressure cookers are manufactured with the same gleaming, long lasting finish as our high-end stainless steel cookware.

**(c) Kitchen Accessories**

We also design various kitchen accessories to complement our range of cookware. The kitchen accessories are divided into three (3) categories, i.e. inserts, handles and knobs.

The types of inserts we manufacture include steamer inserts, double boiler inserts, pasta inserts, steamer and double bowl, double steamers, dutch ovens, boiler inserts, additional covers for pressure cookers, steamer for pressure cooker and eggs steamers. We also offer a variety of handle lengths and designs and various knob designs and styles for our customers to mix and match. Some of these kitchen accessories are outsourced to third party manufacturers.

**(d) Stainless steel convex mirrors**

We also manufacture stainless steel convex mirrors which serve as a “mirror” to reflect blind spots on roads, highways, carparks, factories and others. We are able to design and use stainless steel as a material to manufacture convex mirrors due to our proprietary mirror-polishing technique, which gives a highly reflective mirror-like surface. Our stainless steel convex mirrors are targeted to replace conventional glass, polycarbonate and acrylic convex mirrors, which could crack and lose their reflectiveness after some time. Stainless steel convex mirrors are also highly durable, long lasting and can be used in extreme weather conditions. Although stainless steel convex mirrors are more expensive than normal acrylic, glass or polycarbonate convex mirrors, in the long run it is cheaper to use the stainless steel variety due to their durability. Our stainless steel convex mirrors meet the standards set by the Japanese Traffic Safety Convex Mirror Association.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### (e) Clad metals

We also specialise in the manufacture of multi-ply stainless steel clad metals. Clad metals are composite metals comprising bonded layers of stainless steel and aluminium.

Our clad metals are manufactured using hot-roll bonding technology. Different metals are combined using this technique to provide customised metals with specific desired properties. For example, nickel-steel clad metals are ideal material for withstanding high temperature and corrosive environment present in a hospital sterilizer, i.e. steel provides strength and nickel resists corrosive attacks and product contamination. Aluminium provides excellent thermal and electricity conductivity to the composite metals whereas stainless steel contributes superior corrosion and abrasion resistance. Hence, the bonding of stainless steel with aluminium forms a metal with excellent metallurgical properties.

Clad metals combine the superior properties of each metal – strength, thermal and electric conductivity, corrosion-resistance, lightweight and lower cost – to produce a metal which is superior to any of the individual metals taken alone. The other benefits include:

- Deep drawing equal to single metal;
- Molecular and vacuum tight bond;
- Reduction of weight;
- Improved thermal and electrical conductivity;
- Improved heat and corrosion resistance; and
- Suitable for welding.

We currently manufacture 2-ply, 3-ply, 5-ply and 7-ply stainless steel-aluminium clad metals. This material is used for:

- Induction multi-ply stainless steel cookware; and
- High-end stainless steel cookware.

#### 4.4.2 Technology

The technology used in the manufacturing of our products is as follows:

Division	Technology Used	Technology Description
Cookware	Shear Forming and Flow Forming	<p>Both shear forming and flow forming technologies are widely used in the defence industry for the manufacture of ammunition shells.</p> <p>The unique properties of the shear forming and flow forming technologies are as follows:</p> <ul style="list-style-type: none"> <li>▪ increase tensile strength so that less material is used; and</li> <li>▪ provide design versatility, such as hollow cylindrical, conical or contoured shapes with accurate, uniform profiles and wall thicknesses; thicker bottoms and thinner walls; thick to thin walls without welding sections together; wall thickness customised to stress requirements; produce superior interior finishes without additional manufacturing steps; improve metallurgical strength and hardness.</li> </ul>

4. INFORMATION ON OUR GROUP (Cont'd)

Division	Technology Used	Technology Description
		<p>We use this technology in the manufacture of our cookware as it provides the following benefits:</p> <ul style="list-style-type: none"> <li>(i) Reduction of overall weight – Our cookware which is made from multi-ply clad metals is heavy. Using these forming techniques, the overall cookware’s weight could be reduced without compromising its heat distribution capabilities.</li> <li>(ii) Reduction in production costs – Using these techniques, the overall raw materials used can be reduced, thereby reducing production costs.</li> </ul> <p>Flow forming, also known as flow turning, is an advanced form of spinning. It is based on a predetermined reduction of the thickness of a starting blank material or preform. The reduction is closely controlled, which results in a uniform or precisely varied wall thickness in the finished part.</p> <p>The process starts with the creation of a preform, which is engineered to ensure there is exactly the right amount of material to form into the final shape. This takes into account the varying wall thicknesses and conical tapering. The preform is created using any number of processes including deep drawing, stamping and press forming.</p> <p>Once the preform is completed, it is spun and pressed against a mandrel into the desired shape. In a manner similar to rolling dough, the material is “pushed ahead” to allow a larger finished product to be created from a smaller preform.</p> <p>Shear forming uses similar technology and is mainly used for conical, concave and convex hollow parts with symmetrical contours.</p>
Cookware	Non-Stick Coating	<p>We have a non-stick coating line using PTFE sourced from key PTFE suppliers such as DuPont, Whitford and Daikin. We use sand blasting techniques to roughen the cookware surface to enable the PTFE materials to bond to the surface. A PTFE coating is applied by permeating the textured surface and creating outstanding coating adhesion. PTFE is inert to virtually all chemicals and is considered the most slippery material in existence. We use either a 1 to 3 coat or powder coating process on our non-stick cookware line. Our facilities also cater for arc spray techniques to enable the PTFE materials to bond to the cookware surface.</p>
Cookware	Forming using multi-ply stainless steel	<p>Our manufacturing know-how on the cookware’s forming process using multi-ply stainless steel, which is a composite metal for cookware, is proprietary. As clad metals contain different metals (stainless steel and aluminium) with different metallurgical properties, the forming process is difficult. The clad metals would break or split if the manufacturer does not have the skill to manufacture cookware using this material.</p>

#### 4. INFORMATION ON OUR GROUP (Cont'd)




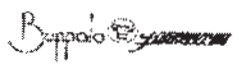




Division	Technology Used	Technology Description
Cookware and Convex Mirror	Mirror-polishing technique	<p>We design and customise various types of machinery used in our cookware and convex mirror manufacturing processes. We possess the know-how of using the correct combination of polishing compound agents and polishing process. We have developed a polishing technique that gives our cookware products a long lasting and highly polished "mirror-like" surface.</p> <p>Under this technique, formed products are externally polished and internally grinded by using various custom-made surface treatment machines including Automatic Index Table Polishing and Grinding machines after applying the correct combination of polishing compound and polishing buff. The pre-polished semi-finished product is further polished to mirror shine using the special mirror polishing machines. In this process, the correct proportion of each of the polishing compound agent is important to achieve the desired quality.</p> <p>Applying our proprietary mirror-polishing technique, we are also able to design and use stainless steel as a material to manufacture convex mirrors with the advent of a special polishing process, resulting in highly reflective mirrors that are superior to the normal glazed or acrylic convex mirrors made from glass, which could crack and become dull after some time.</p>
Clad Metals	Hot-roll bonding technology	<p>Clad metals are composite materials containing two or more layers of different metals that are bonded together through explosion, co-rolling, co-extrusion, welding, diffusion, casting, heavy chemical deposition, or heavy electroplating bonding technologies. Our clad metals are bonded using hot-roll bonding technology.</p> <p>Hot-roll bonding is a process to clad two or more types of metals with different properties. The process involves flattening the cladding surfaces of the parent plate and the clad plate by machines. The surfaces of these plates are cleaned using a special chemical and are placed facing each other. The interfaces of the plates to be clad are sealed to avoid oxidation. Thereafter, the two superimposed plates are heated in a furnace. The plates then undergo a hot rolling process. The rolling force is about several thousand tons, depending on the thickness of the parent plate, the clad plate and the finished composite plate. The finished product is then inspected for its quality.</p> <p>Our bonding technology provides a vacuum-tight bond and may be deep drawn and cold-formed in the same way as the single metal. The combination of the positive properties of each bonded material can lead to new and innovative composite metal construction for use in many industries. Reduced weight, higher thermal and corrosion resistance, improved thermal and electrical conductivity as well as higher material strengths with lower weight make it possible to implement new product ideas beyond the limits of conventional materials.</p>

#### 4. INFORMATION ON OUR GROUP (Cont'd)




##### 4.4.3 Patents and Trademarks

NHC is the beneficial owner of the "NiHsin" trademarks which were registered under class 21 of the Register of Trademarks in Malaysia in 1991.

NHC currently holds a license in respect of the following trademarks from Standardworld under a Trademark License Agreement entered into between NHC and Standardworld on 21 August 2003:

No.	Trade Mark	Class	Country / Registration No.
1.	NiHsin Buffalo 	21	Malaysia / 91/02215
2.	Buffalo & device with Chinese character 	21	Malaysia / 93/08202
3.	Buffalo & device with Chinese character 	21	Malaysia / 95/11910
4.	Buffalo & device with Chinese character 	7	Malaysia / 97/16383
5.	Buffalo & device with Chinese character 	8	Malaysia / 97/16384
6.	Buffalo & device with Chinese character 	8	Malaysia / 97/16386
7.	Buffalo & device with Chinese character 	11	Malaysia / 97/16387
8.	Buffalo & device with Chinese character 	7	Malaysia / 97/16388

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No.	Trade Mark	Class	Country / Registration No.
9.	Buffalo & device with Chinese character 	11	Malaysia / 97/16389
10.	Buffalo & device with Chinese character 	3	Malaysia / 98/14045
11.	Buffalo pro kitchenware & device 	35	Malaysia / 00/08365

The salient terms of the Trademark License Agreement are as follows:

- (i) In consideration for the payment of an annual royalty of one point five percent (1.5%) of the Net Sale Price payable within thirty (30) days after receiving the signed NHC's audited financial statements of the preceding financial year to Standardworld ("Licensor"), commencing from the date of execution of the agreement, the Licensor grants NHC ("Licensee"), on the terms and during the period of the agreement, an exclusive license to use the trade mark(s) mentioned above upon or in relation to the goods in compliance with specifications laid down by the Licensor.

For the purpose of calculation of royalty, 'Net Sale Price' means the sale price received by the Licensee on the sale of the goods under the trade mark(s) net of insurance and carriage, so far as the same are separately invoiced, and of all rebates, discounts, and other reductions actually granted, and exclusive of any value added tax or other duty.

- (ii) The agreement shall continue for a term of ten (10) years until terminated by either of the parties by giving six (6) months' notice of termination in writing to the other party. At the expiry of the term, the license is renewable for an additional five (5)-year term each at the option and terms of the Licensor.
- (iii) The Licensee undertakes:
- to manufacture, package and store the goods in accordance with specifications laid down, directions given, and information supplied by the Licensor and/or by persons authorised by the Licensor from time to time;
  - to use the trade mark(s) in relation only to the goods;
  - to permit the Licensor or its authorised representative at all reasonable times to enter the Licensee's premises on reasonable notice and at its own expense for the purpose of inspecting the goods and the methods of manufacturing, the materials used, packaging and storage of the goods;
  - if and when called upon by the Licensor to do so, to submit samples of the goods for inspection by the Licensor;
  - to indemnify the Licensor from and against any cost, claim, action or demand incurred or suffered by the Licensor as a result of or arising out of the Licensee's use of the trade mark(s), unless and except to the extent that any such cost, claim, action;



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**4. INFORMATION ON OUR GROUP** *(Cont'd)*

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- to keep confidential all information imparted to it by the Licensor (save insofar as the same may be in, or come into, the public domain other than by the fault of the Licensee) and not to use or disclose the same other than for the purpose of the agreement;
  - to use the trade mark(s) without alteration or modification and only in such manner and with such acknowledgement of proprietorship as shall from time to time be stipulated by the Licensor;
  - not to apply any other trade mark to the goods (save as may be expressly agreed otherwise) nor any other matter in writing liable to injure the reputation or distinctiveness of the trade mark(s); and
  - to submit to the Licensor or its authorised representative samples of all labels, advertising or other promotional or publicity material bearing any written representation of the trade mark(s) and intended to be used in relation to the goods or the business in the goods.
- (iv) The Licensor may forthwith terminate the agreement by written notice in any of the following circumstances:
- if the Licensee is in breach of any obligation or condition of the agreement, provided that, if the breach is capable of remedy, and it shall not have been remedied within 30 days of having been given written notice specifying the breach and requiring it to be remedied ; or
  - if the Licensee becomes insolvent, has a receiver appointed over the whole or any part of its assets, enters into a compound with its creditors, or has an order made or resolution passed for it to be wound up (otherwise than in furtherance of a scheme of amalgamation or reconstruction).

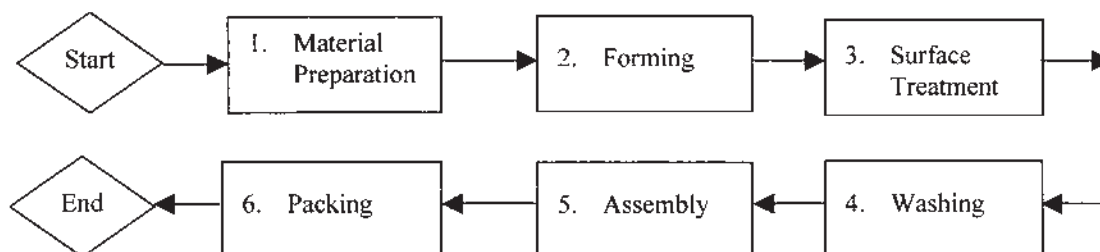
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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### 4.4.4 Production Process

Below are the production processes of our key products:

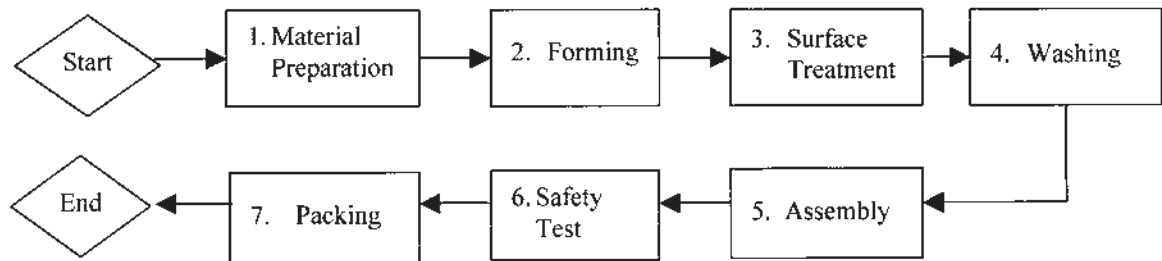
###### (a) Cookware



- (i) Depending on the model, the raw materials for cookware body and lids are prepared separately by using the Automatic Blanking Machine. In this process, coil form stainless steel of specific thickness and material type is converted into circles of desired diameters. For multi-ply pot body, the raw material is purchased in circular form.
- (ii) The circles are formed into desired product shapes using various forming machines, namely Hydraulic Press, Power Press and Lid Rolling Machine. The correct parameter settings of each machine are important in order to achieve the desired product specification. Work instructions for the machines and process operations as well as parameter settings are documented in detail for all models. Meanwhile, periodic Quality Control patrol inspection is carried out with reference to the documented Inspection and Testing Standards.
- (iii) Formed products are externally polished and internally grinded using various surface treatment machines including Automatic Index Table Polishing and Grinding Machine. Work instructions and Inspection and Testing Standards are properly documented for production reference.
- (iv) The products are then cleaned by the conveyor type Automatic Washing Machine. Proper parameter settings of pressure and temperature are important to ensure the correct result after cleaning.
- (v) The products are assembled with other components including handles, stickers and others in the Assembly and Packing section. Each piece of cookware body is then laser marked with the specific brand.
- (vi) The body and lids are then packed together into cartons as a finished product. A batch number is stamped on the outside of each carton for batch tracking purpose. The product is ready for shipping.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

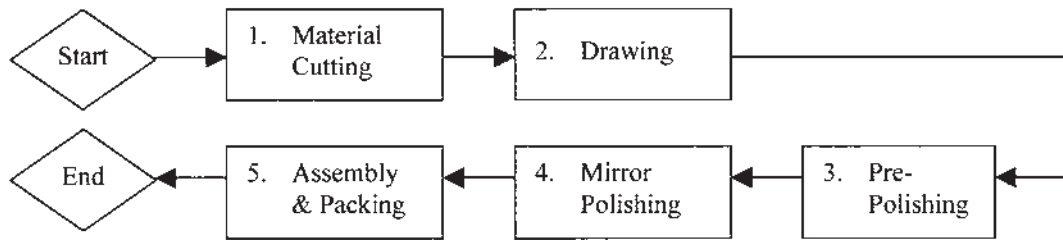
##### (b) Pressure Cookers



- (i) Depending on the model, the raw materials for the pressure cooker body and lids are prepared separately by using the Automatic Blanking Machine. In this process, coil form stainless steel of specific thickness and material type is converted into circles of desired diameters.
- (ii) The circles are formed into desired product shapes using various forming machines, namely Hydraulic Press, Power Press, Lid Rolling Machine, Flow Forming Machine and High Frequency Induction Brazing Machine. The correct parameter settings of each machine are important in order to achieve the desired product specification. Work instructions for machine and process operations as well as parameter settings are documented in detail for all models. Meanwhile, periodic Quality Control patrol inspection is carried out with reference to the documented Inspection and Testing Standards.
- (iii) Formed products are externally polished and internally grinded using various surface treatment machines including Automatic Index Table Polishing and Grinding Machine. Work instructions and Inspection and Testing Standards are properly documented for production reference.
- (iv) The products are then cleaned by conveyor type Automatic Washing Machine. Proper parameter settings of pressure and temperature are important to ensure correct result after cleaning.
- (v) The products are assembled with other components including handles, safety valves, stickers and others in the Assembly and Packing section. Each piece of the pressure cooker is permanently marked with a serial number for product tracking purpose.
- (vi) The pressure cooker is tested on-line for safety via the Pressure Cooker Safety Tester. Random tests such as the Hydrostatic Test and Practical Cooking Test are also carried out during the process.
- (vii) The body and lids are then packed together into cartons as finished products. A batch number is stamped on the outside of each carton for batch tracking purpose. The product is ready for shipping.

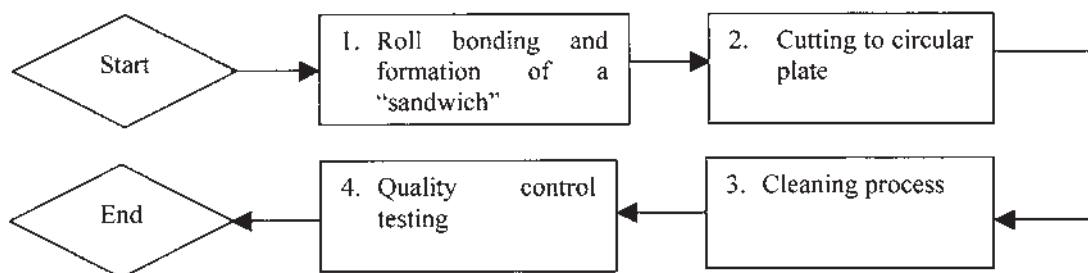
#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### (c) Convex Mirrors



- (i) The raw material of stainless steel is cut into circular form by the Circular Cutting Machine.
- (ii) The circular stainless steel plate is formed into the final shape of the convex mirror using the customised Hydraulic Press Machine. This process is called drawing.
- (iii) The formed semi-finished product is pre-polished by applying the correct combination of polishing compound and polishing buff using the custom-made Automatic Index Table Polishing Machine.
- (iv) The pre-polished semifinished product is further polished to mirror shine using a custom-made Mirror Polishing Machine. In this process, the correct proportion of each of the polishing compound agent is essential to ensure the right quality is achieved.
- (v) The mirror shine semi-finished product is then assembled with other sub-contracted components such as the supporting back plate, sunshade, side protective ring using the Projection Welding Machine. It is then packed into cartons together with other accessories such as bolts and nuts as well as the brackets for installation. The product is ready for shipping.

##### (d) Clad Metals



- (i) Clad metals are manufactured by roll bonding a core or backing metal with a specialty metal to produce a metallurgically bonded clad. Many metals can be combined using this technique to provide a custom metal with specific desired properties. Roll bonding is achieved by processing a specially prepared "sandwich" (layers of backing and cladding materials) through a hot plate rolling mill.
- (ii) The bonded metal is cut into the desired circular plate size, referred to as the bonded plates.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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- (iii) The sized bonded plates are cleaned with an abrasive mixed with glass beads to achieve a clean, relatively bright surface on both sides of the plate.
- (iv) The clad and bonded plates are manufactured according to specific safety standards and quality codes. To meet these quality and safety specifications, routine tests are performed on the bonded plates before delivery. The basic tests performed on the clad plates comprise the pull, tensile, shear and bend tests on modern testing equipment.
- (v) Upon customers' requests, other testing services such as ultrasonic testing, thermal treatment and saw cutting are also conducted.
- (vi) Upon satisfying the criteria of the quality control tests, the bonded plates are released for sale to customers.

##### 4.4.5 Estimated Market Coverage / Position

The stainless steel cookware in Malaysia can be segregated into different segments of the consumers markets, namely the low-end, medium-end and the premium or high-end segments. The low-end segment manufacturers or distributors mainly provide cookware made from low-grade single-ply stainless steel material. In the medium-end segment, cookware is manufactured from higher quality stainless steel compared to the low-end cookware. Stainless steel cookware for the high-end or premium market normally uses clad metals in their products.

Among the brands in the high-end category include Buffalo from NHC, Malaysia, WMF from Germany, Alessi from Italy and Queen from USA. Based on a research conducted by Infocredit D&B (Malaysia) Sdn Bhd, all high-end stainless steel cookware in Malaysia are imported, save for the Buffalo brand which is manufactured locally in Malaysia.

Currently, there is no other significant manufacturer of high-grade stainless steel cookware in Malaysia, due to the relatively high entry barrier of the industry. This would include the technical and technology know-how of producing high-end stainless steel cookware, heavy capital investment, high raw material cost due to the usage of multi-ply clad metals and renowned brand name to appeal to the high-end buyers. The lack of a strong brand name and high-end customer base would serve as a deterrent to potential players in this segment. Without it, potential players will have to bear a huge risk in terms of the massive capital outlay for the technical and technology know-how and the necessary equipment to produce the high-grade stainless steel cookware.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

Being a seasoned manufacturer in Malaysia, our track record has provided us with significant market penetration. Among the local cookware manufacturers, we continue to expand our reach in Malaysia and overseas with our quality products, creating a greater barrier for any new entrants. Our cookware export revenue for 2004 was close to RM29 million which contributed 74% to the total stainless steel kitchenware and cookware exports of Malaysia in 2004.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### 4.4.6 Future Products and Services

Our sales team works closely with our R&D team in the conceptualisation of cookware designs. Prior to the creation of a design, our R&D team carries out research and evaluation on the latest market trend, materials selection, process engineering, and economic assessment. Before finalising a design, our sales team, drawing from its experience with customers, provides feedback and suggests improvements to our R&D team on the feasibility of each design. This is followed by production of a prototype or product sample for further testing and improvement before commercial production commences.

We will continue to focus on our core competency in the manufacturing of cookware and kitchenware. Some of our major R&D focuses include designing and developing various sizes of the non-stick induction multi-ply stainless steel rice cooker bowl for the Japanese market, designing more induction cookware using magnetic multi-ply stainless steel, redesigning our pressure cooker using full multi-ply stainless steel as an improvement from the current bottom welding model and designing an intelligent induction cooker with built-in electronic features to set the cooking time and method. We expect to complete these R&D by December 2005.

We will also place emphasis on our Clad Metals and Convex Mirror Divisions. Our R&D efforts in the Convex Mirror Division include designing rectangular convex mirror catering for the Japanese market and designing stainless steel inspection mirror. We expect to complete these R&D by June 2006. For the Clad Metals Division, our R&D focuses will be on titanium and aluminium clad metals as well as copper and aluminium clad metals to fabricate new combination of clad metals that are more superior in quality. We expect to complete these R&D by December 2006. These new products will allow us to tap into consumer electrical and electronics as well as personal computer markets.

##### 4.4.7 Principal Markets

We export our products to various export markets such as Japan, USA, Europe, the Philippines, South Korea, Hong Kong, Canada, Indonesia and Taiwan. For the financial year ended 31 December 2004, approximately 92% of our revenue was made up of exports sales, as follows:

<b>Country</b>	<b>Revenue RM'000</b>	<b>%</b>
Japan	18,436	48
Taiwan	4,396	11
Hong Kong	3,427	9
USA & Canada	2,934	8
South Korea	1,876	5
Europe	1,554	4
<b>Others</b>	<b>2,688</b>	<b>7</b>
<b>Export sales</b>	<b>35,311</b>	<b>92</b>
<b>Local sales</b>	<b>2,947</b>	<b>8</b>
<b>Total</b>	<b>38,258</b>	<b>100</b>



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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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##### 4.4.8 Source and Availability of Raw Materials

The main raw materials used in the production of high-end multi-ply stainless steel cookware are stainless steel clad metals, bakelite and PTFE coating materials. We manufacture our own stainless steel clad metals to ensure consistent supply of high quality stainless steel clad metals. We use high-grade stainless steel and aluminium to manufacture clad metals. For our Convex Mirror Division, our principal raw material is high-grade stainless steel.

We purchase our raw materials from a pool of suppliers who have an established track record and are able to provide constant supply at competitive prices promptly. While we maintain long term relationship with major suppliers, no assurance can be given that there will be continuous sufficient supply of raw materials. However, our Directors and key management are confident that our long term relationship with our suppliers will enable us to obtain regular and adequate supply of raw materials at competitive prices. Our management is able to identify additional suppliers to procure supply of raw materials should the need arise.

##### 4.4.9 Quality Control

We consider consistent high quality of our products as an essential attribute in attracting and retaining our customers as well as upholding our status as a quality stainless steel cookware manufacturer for the high-end market. This is important as our cookware under our licensed brand “Buffalo” commands a premium pricing over single-ply stainless steel cookware. Furthermore, in the OEM/ODM market, our customers expect our products to be of high quality in order to match their brand status.

As a testimony of our high standards of quality control, we have obtained SG (Safety Goods) Mark and SG IH certificate for factory registration and export of pressure cookers and induction cookware to Japan from the Consumer Product Safety Association of Japan.

We monitor our production process at various stages to facilitate corrective actions to eradicate causes of deviation at the sources. Quality control machines such as handle press machine, separation machine, mounting machine, hardness testing machine, drawing test machine, bottom concave testing machine and others are used to ensure product quality and consistency. We conduct various testing procedures on our products such as strength tests, handle push and pull tests, handle static strength tests, post water nail adhesion tests, precut water boiling adhesion tests, salt solution corrosion tests and others.

Besides conducting our own internal quality audit regularly, our quality management system is also subject to review by customers and external audits carried out by SGS Yarsley in compliance with the criteria under ISO 9001 certification. We have not encountered any product liability claims.

##### 4.4.10 R&D

We believe that a key competitive factor that differentiates us from the low-end and medium-end cookware manufacturers is our R&D capabilities. We have invested continuously in technology deployment and R&D activities to sustain our competitiveness. Combining our Directors' and management team's manufacturing know-how and various custom-made plant and machinery, we are able to manufacture various models of high quality premium cookware, clad metals and convex mirrors for the global market.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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Currently, our R&D Department consists of twelve (12) personnel and is headed by our Executive Director, Mr Hsiao Chih Chien who has over 29 years of experience in the cookware industry. Our R&D team uses Computer Aided Design (“CAD”) software to simulate 3-dimensional models for the design of various cookware and convex mirror products. Designs that show promise are transformed into prototypes, which are then subject to testing by our Production Department. The Production Department fabricates the forming moulds, configures the machinery and performs trial production runs on the prototypes. Thereafter, our Quality Control Department conducts stringent quality control tests to ensure that the new prototypes meet the required standards.

Our R&D team is entrusted with the following major responsibilities:

**(i) Production Methodology Improvements**

We strive to continuously improve our production methodology. This includes developing innovative, effective and efficient production methodologies, sourcing for suitable raw materials, reducing of material usage without compromising product quality and reliability, designing accessory devices, jigs and tools to facilitate automation and reducing our dependency on human labour. Our management is constantly looking into areas of improvements in the production process to increase our efficiency and productivity, and reduce turnaround time for the manufacturing process. The continuous improvement on our production methodology will help us to operate at lower costs, higher quality and better efficiency, thereby providing us with an edge over our competitors.

**(ii) New Product Research, Design and Development**

In the premium cookware industry, product innovation is crucial to attract customers. Our Directors place great emphasis on our product design and development capabilities and we design products exclusively for our OEM/ODM customers. Design competency is a skill acquired through experience and time involving extensive understanding of metallurgy properties, consumer tastes, production processes and machinery usage.

We improve and upgrade our product designs annually to meet our customers’ demand. For new product developments, our R&D team researches and conceptualises the new product designs for initial viewing by customers and distributors to determine market acceptance. A detailed product drawing is produced by our in-house designers using CAD software. Our designers will work together with our Finance and Production Departments to determine the cost of production, manufacturing and quality control process. Prototypes are then produced in accordance with the detailed design drawings and tested to meet applicable safety standards. A limited quantity of the products are manufactured for sale to test market acceptance. Feedback is obtained from distributors and customers for improvements. Once the product is satisfactory, we will begin mass production.

**(iii) Machinery Design and Customisation**

Various production processes in our Group are undertaken using machinery customised by our R&D team based on their technical know-how and manufacturing experience. We believe that our ability to design production flow and customise production machinery is a key competitive advantage over our competitors as it helps to lower our production costs.

Our R&D team regularly reviews the machinery technology in the market as part of our manufacturing capability improvement measures.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

A summary of our R&D achievements / milestones over the past five (5) years is set out below:

Year	Achievements / Milestones
1999	<ul style="list-style-type: none"> <li>▪ We commenced research on the technical requirement for stainless steel convex mirror, design and development of stainless steel convex mirrors, research on the correct polishing technique and the types of raw materials and machinery to be used to achieve a mirror-like surface for the stainless steel convex mirror. Our R&amp;D team designed the entire production process and procured customised machinery for production.</li> <li>▪ We designed the “Elegant” series of cookware under the “Buffalo” brand.</li> </ul>
2000	<ul style="list-style-type: none"> <li>▪ We commenced designing and developing induction cookware using magnetic multi-ply stainless steel.</li> </ul>
2001	<ul style="list-style-type: none"> <li>▪ We conducted research on hot-roll bonding technology and procured customised machinery. We implemented a clad metals production line in August 2001 and commenced trial production run. Our Directors believe that EGAM is the first company in Malaysia to produce multi-ply stainless steel clad metals. Since the commencement of our Clad Metals Division, we have discontinued import of clad metals from USA and Switzerland, thus reducing our dependency on overseas suppliers for clad metals, minimising foreign currency fluctuation risks, shortening delivery lead times and improving product quality.</li> </ul>
2002	<ul style="list-style-type: none"> <li>▪ We commenced PTFE production line and conducted research on sand blasting techniques for better surface adherence. Our R&amp;D team designed new cookware with non-stick features and undertook study on the correct manufacturing technique to ensure high quality PTFE coating and finishing.</li> <li>▪ We designed and manufactured our 9<sup>th</sup> generation pressure cooker with multi-ply stainless steel sandwich bottom welding, new handles and knobs and better safety features. Our pressure cooker has been redesigned nine (9) times since the first model was manufactured in the 1950s.</li> </ul>
2003	<ul style="list-style-type: none"> <li>▪ We commenced R&amp;D on 2-ply stainless steel rice cooker bowl with induction capability and non-stick coating for the high-end Japanese rice cooker market.</li> <li>▪ We manufactured a new range of high-end cookware with polished, mirror-like surface and new shapes. We conducted a research on stainless steel chemical treatment process to darken the colour of cookware handles for aesthetical appeal.</li> <li>▪ We designed and manufactured a new range of multi-ply stainless steel pressure cookers. Our existing pressure cooker is made from single-ply stainless steel. We used flow forming technology to achieve the desired height for the pressure cooker, which enables us to save on raw materials and reduce the weight of the pressure cooker.</li> </ul>
2004	<ul style="list-style-type: none"> <li>▪ We applied shear forming technology in our production of 3-ply and 5-ply frying pan for the Japanese market to reduce raw material costs and weight of cookware.</li> <li>▪ We completed the R&amp;D and commenced mass production of 2-ply stainless steel rice cooker bowl with induction capability and non-stick coating for the high-end Japanese market.</li> </ul>

#### 4. INFORMATION ON OUR GROUP (Cont'd)

Year	Achievements / Milestones
	<ul style="list-style-type: none"> <li>▪ We conducted R&amp;D on 7-ply and 9-ply clad metals.</li> <li>▪ We conducted R&amp;D on multi-ply stainless steel rice cooker bowl inserts to replace the current aluminium rice cooker bowl inserts available in the market.</li> </ul>
2005	<ul style="list-style-type: none"> <li>▪ We completed R&amp;D on multi-ply stainless steel rice cooker bowl inserts to replace the current aluminium rice cooker bowl inserts available in the market.</li> </ul>

We incurred R&D expenditure of approximately RM464,000, RM436,000 and RM566,000 representing approximately 1.9%, 1.1% and 1.5% of our revenue for the financial years ended 31 December 2002, 31 December 2003 and 31 December 2004 respectively.

##### 4.4.11 Interruptions in Operations

We did not experience any disruption in business which has a significant effect on our operations for the twelve (12)-month period prior to the date of this Prospectus.

##### 4.4.12 Information on Employees

As at 31 May 2005, we have 199 employees. We do not employ any contractual / temporary employees. Our employees do not belong to any union and they enjoy a good relationship with our management. A breakdown of our employees as at 31 May 2005 is as follows:

Categories of staff	-----Length of service----->			
	More than 5 years	2 to 5 years	Less than 2 years	Total
Directors	6	-	-	6
Senior Managers and Managers	7	3	-	10
Executives	3	3	4	10
Assistants	28	8	20	56
Supervisors	3	-	2	5
Production Operators	22	53	37	112
	69	67	63	199

We provide our employees with a series of continuous training and development programs. Trainings are conducted periodically when required to keep our employees updated on the development of our products. Our training and development programs include documentation for ISO9001, product familiarisation, enhancing productivity and safety awareness. Our production, marketing and R&D teams would also be exposed to new technological innovation in the industry to keep abreast with the latest market trends and product development.

##### 4.4.13 Key Achievements / Milestones / Awards

In recognition of our quality management system, our subsidiary, NHC was awarded the ISO9001 accreditation by SGS-Yarsley International Certification Services in 1999. NHC also received its SG certificate for the export of pressure cookers, and SG IH certificate for factory registration and export of induction cookware from the Consumer Product Safety Association of Japan in 1992 and 2002 respectively.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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##### 4.4.14 Modes of Marketing / Distribution / Sales

Our Sales and Marketing Department is currently headed by our Managing Director, Mr Hsiao Chih Jen and comprises six (6) dedicated marketing staff. Our Sales and Marketing personnel are entrusted with the following tasks:

**(a) Market research and business development**

Our Sales and Marketing team identifies new potential markets and product development in both the Asian and Western markets. Market research is carried out to determine consumer preferences and market trends for each target country so as to enable us to gauge the future direction of the industry.

**(b) Participation in major international trade fairs**

We have participated in several major international trade fairs on cookware and kitchenware. Trade fairs enable us to showcase our products and serve as a business networking opportunity to seek new markets and customers. The major international cookware trade fairs that we have participated in 2004 were the Hong Kong Houseware Show in Hong Kong, International Houseware Show in Chicago, Ambiente in Frankfurt, Shanghai East China Fair in Shanghai and Domotechnica in Cologne.

**(c) Sales coordination and customer service**

The demand for our premium cookware and kitchenware generally increases in the second half of the year, due mainly to the seasonal nature of consumer spending behaviour in our export markets, where the shopping seasons normally peak in the second half of the year during festive periods such as Christmas and New Year. In view of the short lead-time to deliver our goods, we monitor our production schedule closely and maintain a close liaison with our customers to ensure their needs are met. We work closely with our customers to provide them with a better understanding of our products and enable them to enhance their confidence in us.

**(d) Expansion of our sales network and marketing channels**

We believe that an effective expansion of sales network and marketing channels would enable us to distribute our products effectively and increase our market presence. Our cookware is primarily marketed to two (2) distinct market segments, namely direct consumer market and the OEM/ODM customers. Different marketing and distribution channels have been used to reach the target market.

For the direct consumer market, we distribute our cookware via master dealers under our "Buffalo" brandname. Our master dealers distribute our cookware via their own unique distribution channels. Currently, we have six (6) master dealers in Hong Kong, Taiwan, USA, Canada, People's Republic of China and Malaysia. We plan to seek new master dealers in Australia, Thailand, the Philippines and Indonesia. Meanwhile, we will continue to launch advertisements and promotional strategies in these countries to build brand awareness.



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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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We will continue to nurture our business relationship with our existing OEM/ODM customers and we work closely with them on marketing strategies and promotional activities to improve sales in each respective countries. We also strive to continuously develop innovative products to meet our customers' requirements. To broaden our OEM/ODM customer base, our marketing personnel identify key cookware brands in the market and conduct marketing calls to the potential customers. We plan to secure more new customers from Japan and Europe.

We distribute our products to our customers as follows:

##### ***Cookware Division***

Our cookware is primarily marketed to the direct consumer market and the OEM/ODM market.

For the direct consumer market segment, we distribute our products to the end consumers via master dealers under the "Buffalo" brandname. Our master dealers distribute our products via their own unique distribution channels. We believe that the master dealer strategy is more reliable as it allows us to penetrate and establish a distribution channel in a foreign market without investing significant cash flows, time and manpower. Master dealers are selected based on their capabilities to market and their access to distribution channels in target market.

In the OEM/ODM market, we provide exclusive cookware designs to our OEM/ODM customers and manufacture the cookware once they agree to the designs. Our OEM/ODM customers distribute our products via their own unique distribution channels under their own brandnames. We believe that the exclusive arrangements from design to manufacturing would enable us to establish mutually beneficial relationship with our customers, differentiate our products for each export market and secure a larger pool of OEM/ODM customers.

Our distribution methods differ for each market segment as the distribution strategy is dependent on the level of market awareness, purchasing power and brand awareness of each target market.

##### ***Convex Mirror Division***

For our Convex Mirror Division, our customers are mainly key distributors of safety product equipment who usually have access to the local government, being the biggest buyers of safety equipment. Our Directors and marketing team visit traffic safety fairs such as Intertraffic Show in Europe and Traffic Safety Show in USA to seek potential distributors.

Currently, we export our stainless steel convex mirrors mainly to Japan and South Korea. In Japan, the import of stainless steel convex mirrors is regulated by the Japanese Traffic Safety Convex Mirrors Association, which sets the industry standards, tests and approves import of such products. Our stainless steel convex mirrors had undergone testing process with this Association prior to exporting to Japan.

To expand our market, we intend to identify new distributors and importers to distribute our convex mirrors in Europe, USA, Taiwan and other Asia Pacific countries.

##### ***Clad Metals Division***

Our customers for Clad Metals Division are mainly high-end cookware manufacturers overseas. Insofar as we are aware, these cookware manufacturers currently purchase multi-ply stainless steel clad metals from suppliers in USA, Europe and South Korea. We target to sell our clad metals to these manufacturers as we believe our products are lower in price but comparable in quality.



#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### 4.4.15 Production Capacity and Output

As at 31 May 2005, we operate from our integrated manufacturing plant located in Selangor. Currently, we operate on an eight (8)-hour shift model. Overtime is implemented at any production bottlenecks.

Location	Built-up area (sq. m.)	Annual production capacity*
45 & 47, Jalan Taming Dua Taman Taming Jaya Off Jalan Balakong 43300 Seri Kembangan Selangor Darul Ehsan	15,072 <sup>^</sup>	<ul style="list-style-type: none"> <li>▪ Multi-ply stainless cookware – 1,662,000 units</li> <li>▪ Stainless steel convex mirror – 55,000 units</li> <li>▪ Clad metals – 831,000 pieces</li> </ul>

**Notes:**

\* *Based on the assumption that we operate on an average eight (8)-hour shift per day and 277 working days per annum and that there is no disruption to the production process.*

<sup>^</sup> *Including non-approved structures and covered terrace with a total gross built-up area of 1,069 sq. m.*

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.5 Subsidiaries

##### 4.5.1 Information on NHC

###### (a) History and Business

NHC was incorporated in Malaysia under the Act as a private limited company on 16 August 1989. NHC commenced its operations on 1 March 1991.

The company is principally involved in the design, manufacture and sale of stainless steel kitchenware and cookware.

###### (b) Share Capital

As at 31 May 2005, the authorised and issued and paid-up share capital of NHC are as follows:

	RM
<b>Authorised</b>	
Ordinary shares of RM1.00 each	15,000,000
<b>Issued and paid-up</b>	
Ordinary shares of RM1.00 each	13,764,706

###### (c) Changes in Share Capital

The changes in the paid-up share capital of NHC since its incorporation up to 31 May 2005 are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative issued and paid-up share capital RM
16.08.1989	7	Subscribers' shares	7
15.05.1990	1,143,770	Capitalisation of advances	1,143,777
15.08.1990	1,180,000	Capitalisation of advances	2,323,777
01.11.1990	512,000	Cash	2,835,777
30.03.1991	8,425,000	Capitalisation of advances	11,260,777
30.03.1991	450,000	Cash	11,710,777
19.08.1993	1,289,223	Cash	13,000,000
28.05.2004	764,706	Cash	13,764,706

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

**(d) Profit and Dividend Record**

The audited profit and dividend record of NHC for the past five (5) financial years ended 31 December 2000 to 31 December 2004 are summarised as follows:

	<----- Financial year ended 31 December ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	40,547	30,254	26,022	40,139	36,812
EBITDA	10,693	5,026	3,226	8,540	9,379
Interest expense	(489)	(356)	(171)	(170)	(267)
Interest income	524	366	130	115	84
Depreciation	(2,498)	(2,521)	(2,690)	(2,688)	(3,071)
PBT	8,230	2,515	495	5,797	6,125
Tax expense*	(1,615)	(555)	58	(837)	(1,514)
PAT	6,615	1,960	553	4,960	4,611
No. of ordinary shares of RM1.00 each in issue ('000)	13,000	13,000	13,000	13,000	13,765
Gross EPS (sen)	63.3	19.3	3.8	44.6	44.5
Net EPS (sen)	50.9	15.1	4.3	38.2	33.5
Net dividend rate (%)	-	13.8	2.3	84.6	43.6

**Note:**

\* Tax expense has been adjusted for over/under provision in the respective years.

**(e) Substantial Shareholder**

NHC is our wholly-owned subsidiary.

**(f) Subsidiary and associated company**

NHC does not have any subsidiary or associated company as at 31 May 2005.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.5.2 Information on EGAM

(a) **History and Business**

EGAM was incorporated in Malaysia under the Act as a private limited company on 20 April 2001. EGAM commenced its operations on 26 September 2001.

EGAM is principally involved in the research and development, and manufacturing of clad metals and stainless steel convex mirrors.

(b) **Share Capital**

As at 31 May 2005, the authorised and issued and paid-up share capital of EGAM are as follows:

	RM
<b>Authorised</b>	
Ordinary shares of RM1.00 each	5,000,000
<b>Issued and paid-up</b>	
Ordinary shares of RM1.00 each	5,000,000

(c) **Changes in Share Capital**

The changes in the paid-up share capital of EGAM since its incorporation up to 31 May 2005 are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative issued and paid-up share capital RM
20.04.2001	2	Subscribers' shares	2
16.05.2001	4,999,998	Cash	5,000,000

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

**(d) Profit and Dividend Record**

The audited profit and dividend record of EGAM for the past four (4) financial period/years ended 31 December 2001 to 31 December 2004 are summarised as follows:

	Period from 20.4.2001 to 31.12.2001 RM'000	Financial year ended 31 December		
		2002 RM'000	2003 RM'000	2004 RM'000
Revenue	1,299	5,079	11,849	9,748
EBITDA	(21)	1,139	4,433	3,592
Depreciation	(33)	(107)	(130)	(267)
Interest expense	-	(83)	(54)	(48)
Interest income	1	-	34	22
Loss before tax/PBT	(53)	949	4,283	3,299
Tax expense	(5)	(146)	(371)	(485)
Loss after tax/PAT	(58)	803	3,912	2,814
No. of ordinary shares in issue ('000)	5,000	5,000	5,000	5,000
Gross EPS (sen)	-	19.0	85.7	66.0
Net EPS (sen)	-	16.1	78.2	56.3
Net dividend rate (%)	-	-	-	-

**(e) Substantial Shareholders**

EGAM is our 51% subsidiary and is 49% owned by Standardworld.

**(f) Subsidiary and associated company**

EGAM does not have any subsidiary or associated company as at 31 May 2005.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### 4.6 Industry Overview

##### 4.6.1 The Global Economy

In 2004, the global economy expanded at its strongest pace of 4.8% since 1984, led by USA, reinforced by strong growth in the Asian region and revival of growth in Japan and Europe. Above-trend growth in the first half-year reflected the strong rebound from the lower base of 2003 due to economic uncertainties related to the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome in Asia. In the second half-year, despite the dampening effects of sharply higher oil prices and the reversal of interest rate trends, the growth momentum was maintained, reflecting sustained strong consumer spending and the revival in investments. Overall, the global economy exhibited greater resilience to energy stocks.

Robust global growth was reflected in significant improvements in international trade and financial flows. World trade grew by 8.8% in 2004, supported by the global electronics up-cycle, higher commodity prices and rising impact demand, notably in USA and the People's Republic of China. In the Asian region, these developments in tandem with stronger domestic demand contributed to further expansion in intra-regional trade. In the financial markets, major equity market indices rose strongly, buoyed by improved investor optimism amidst corporate earnings. In the foreign exchange markets, growing concerns on the large and widening USA current account imbalances, and the sustainability of capital inflows to finance the deficit led to the depreciation of USA dollar against the other key currencies.

Going forward, the outlook for 2005 remains favourable. World output and world trade are projected to expand at a steady pace of 4% and 5.8% respectively in 2005. The pace of slowdown in USA and the People's Republic of China is expected to be modest, on the basis that adjustments of the imbalances in these economies would be gradual. The scenario assumes that USA dollar weakness would be orderly and that USA fiscal narrows, albeit moderately. In addition, as oil prices recede from its peak in October 2004, inflationary pressures are expected to remain manageable, providing flexibility for gradual increases in interest rates in USA to a neutral level. Monetary conditions are, therefore, expected to remain supportive of growth. Meanwhile, the People's Republic of China is expected to manage some softening of the economy.

The growth in USA economy is expected to be near-potential, with real GDP expanding by 3.5% in 2005. Economic expansion would be sustained by improving labour market conditions and the strong financial position of corporate sector. In Japan, the expected lower growth in 2005 reflects to a large extent the slow down in external demand. Growth in East Asian region is expected to expand at a reasonably high rate of 6.3% - 6.5%. The economic impact of the tsunami disaster is estimated to be minimal, with short-term impact on the tourism and fishery industries in the affected countries. Among the regional countries, China will remain the driver of growth. In the other Asian economies, growth will vary across countries, depending on their exposure to the downturn in the global electronics cycle.

*(Source: Bank Negara Malaysia Annual Report 2004)*

##### 4.6.2 The Malaysian Economy

With the more robust growth in global trade and domestic demand, the momentum of economic growth in Malaysia, which began in the second half of 2003, gathered pace in 2004. Real GDP increased by 7.1% in 2004 (2003: 5.3%), the faster growth since 2000. The economy benefited from the rapid growth of global trade in manufactures and higher prices for primary commodities. Although global growth moderated somewhat in the second half of the year, the Malaysian economy remained resilient with stronger domestic demand providing the impetus for sustained expansion, while the Government continued with fiscal consolidation.



#### 4. INFORMATION ON OUR GROUP (Cont'd)

The improvement in the economy was reflected by positive growth across all sectors except construction. The main drivers of growth were the manufacturing, services and primary commodities sectors. Value added in the manufacturing sector expanded strongly by 9.8%, as output growth in both export- and domestic-oriented industries reflected stronger external and domestic demand for manufactured goods. In the export-oriented industries, the strongest output expansion was seen in the electronics industry, benefiting from the upturn in the global semiconductor cycle. In addition to strong growth in the electronic industry, growth was reinforced by sustained external demand for resource-based products such as chemical, rubber and wood products. Growth in the domestic-oriented industries was supported by strong demand in the fabricated metal products industry and a turnaround in the transport equipment industry. The favourable performance of the manufacturing sector was also reflected in the stronger expansion in manufactured exports (19.7%) and sustained high capacity utilisation level (79%), in spite of investments in new capacity during the year.

The prospects for the Malaysian economy in 2005 remain sound. Real GDP is expected to expand by 5% - 6%. The sustained global growth, the modest downturn in the global semiconductor industry as well as relatively favourable prices for primary commodities are expected to provide support to export growth. While the global electronics industry is consolidating after reaching a peak in mid-2004, the cyclical downturn is forecast to be modest in view of the strong Asian demand, the rapid inventory adjustments and relatively low inventory levels. Current indications point to an expected upturn in the global electronics cycle in the second half-year. In the domestic economy, the private sector would remain as the main driver of growth, as the Government remains committed to optimising expenditure in order to strengthen the fiscal position. With the core inflation projected to remain low in 2005 (1.8%), monetary policy is able to remain supportive of the further expansion in private sector activities.

*(Source: Bank Negara Malaysia Annual Report 2004)*

##### 4.6.3 The Manufacturing Industry

The manufacturing sector recorded another strong double-digit expansion in 2004, with output growth strengthening to 12.7% (2003: 10.5%). The robust performance was supported by the positive external environment following stronger growth in both the industrial and regional countries, and further reinforced by improved domestic demand. Growth was more pronounced in the first half-year (16.1%; second half-year: 9.6%), fuelled by strong demand for electronics, in line with the upward momentum in the global semiconductor cycle. Growth during the year was also underpinned by strong export demand for resource-based products including rubber, chemicals and wood. In the domestic-oriented industries, growth was led by a turnaround in the transport equipment industry and robust expansion in the fabricated metal industry, which more than offset the moderation in the construction-related materials industry. Consequently, growth in both the export-oriented and domestic-related industries strengthened to 14.2% and 7.1% respectively in 2004 (2003: 11.9% and 6.1% respectively).

In tandem with the significant expansion in production, overall value added growth of the manufacturing sector in 2004 strengthened further to 9.8% (2003: 8.3%). The manufacturing sector remained as the leading driver of economic growth, with its contribution to GDP increasing from 30.8% in 2003 to 31.6% in 2004. Amidst the strong output growth, the overall capacity utilisation rate in the manufacturing was marginally lower at 79% in 2004 (2003: 80%), due to additions in capacities in selected industries. The capacity utilisation rate for export-oriented and domestic-oriented industries stood at 81% and 75% respectively (2003: 82% and 76% respectively).

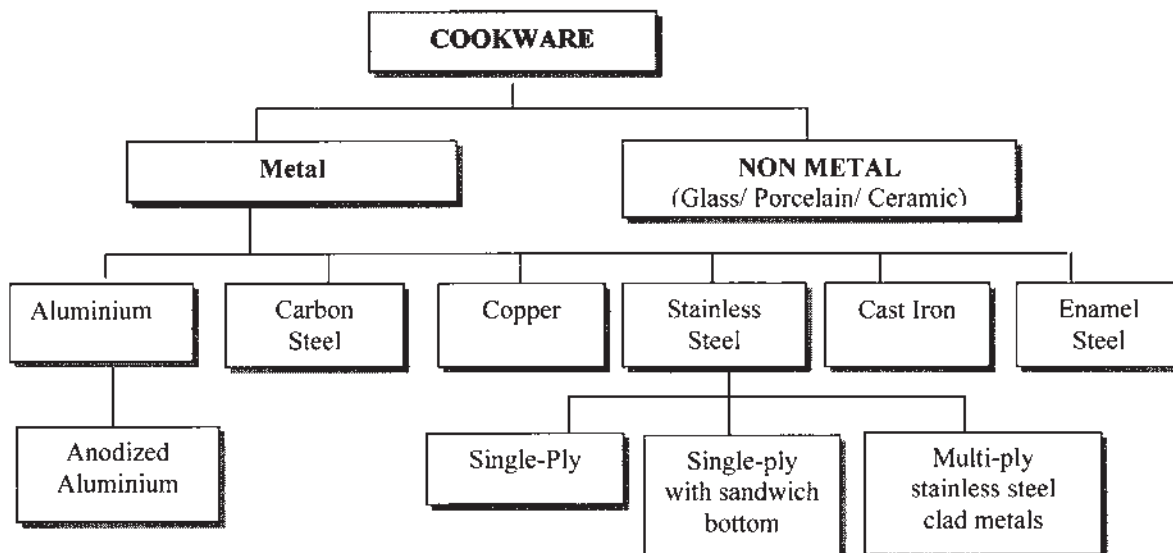
#### 4. INFORMATION ON OUR GROUP (Cont'd)

Following the strong output expansion in 2004, the manufacturing sector is expected to grow at a moderate pace of 4.5% in 2005, in tandem with developments in the global semiconductor industry. The strong external demand for chemical and rubber products as well as sustained growth in the output of domestic-oriented industries, led by the transport equipment and fabricated metal industries, would provide support for growth in the sector. The diversified base would moderate the impact of the ongoing consolidation in the electronics industry.

(Source: Bank Negara Malaysia Annual Report 2004)

##### 4.6.4 The Cookware Industry

Cookware is a sub group of a broader category of houseware, which consists of sub groupings such as kitchenware, bakeware, tableware including cutlery, cookware and others. Under the cookware category, it can be further divided into metal based cookware and non-metal based cookware. Metal based cookware refers to cookware that is made from ferrous metal and non-ferrous metal while non-metal based cookware is basically made from ceramic, porcelain or glass. Types of material selected make a great difference in the cookware performance and price. The cookware industry structure is diagrammatically illustrated as follows:



(Source: Infocredit D&B (Malaysia) Sdn Bhd)

##### 4.6.5 The Stainless Steel Cookware Industry

The cookware industry in Malaysia is rather small compared to other fabricated metal manufacturing industry. Nevertheless, it has quite a vast untapped potential due to the affluence of society in developed and newly industrialised countries where spending power tends to be higher in tandem with the rise in real income. In addition, it is also attributed to the advancement in technology such as induction cooking as well as introduction of new trends in various cooking styles involving the “East meets West” arising from changing lifestyles of modern society. In today’s lifestyles, cooking is no longer confined to preparing food for consumption but rather as a style or art. Emphasis is given more to the way the food is prepared and maintaining the original flavours and nutrients of the food. In fact, several medium to high-end stainless steel cookware manufacturers overseas have been collaborating with renowned chefs in their respective countries to promote quality cooking. The importance of high quality cookware has led to the increasing usage of multi-ply stainless steel cookware.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

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The stainless steel cookware in Malaysia can be segregated into the different segments of the consumers markets. They are the low-end segment, medium-end segment and the premium or high-end segment.

- **Low-end**

The low-end segment manufacturers or distributors mainly provide cookware made of low grade single-ply stainless steel material. However, the quality is very inferior and the pricing of this low-end cookware is highly elastic, thus making it very cheap. Most of the cookware in this segment is either sourced from China and Thailand or manufactured locally. Examples of some of the brands in this category include Zebra from Thailand, 555 from China and Eagle brand (mainly aluminium cookware) from Malaysia. This segment of stainless steel cookware is very popular in Malaysia among the domestic households due to its cheap prices.

- **Medium-end**

In the medium-end segment, cookware is made of higher quality stainless steel compared to the low-end cookware. It also incorporates better knobs and handles design of the cookware. In this segment, stainless steel cookware with aluminium or copper sandwiched bottom is widely used together with high grade stainless steel. Examples of some of the brands in this category include Meyer from USA and Tefal from France.

- **High-end**

Stainless steel cookware for the high-end or premium market is normally made of clad metals. Clad metals are composite metals consisting of high quality stainless steel and other metal alloys bonded together by using hot-roll bonding technology. The high-end cookware is characterised by its durability, instant and even heat distribution as well as corrosive-resistant properties, apart from the aesthetic design of the cookware. The cookware is also highly polished to achieve a "mirror-like" surface to increase its aesthetic appeal.

Among the brands in this category include Buffalo from the NHR Group, WMF from Germany, Alessi from Italy and Queen from USA.

Based on import statistics, import of kitchenware made of stainless steel products grew 28.7% to RM42.2 million in 2002 from RM32.8 million in 2001. However, import of stainless steel kitchenware dropped 19.9% in 2003 to RM33.8 million and subsequently grew by 31.7% to RM44.5 million in 2004. Based on the data for 2004, the major importing countries for stainless steel kitchenware include China, Italy, India, USA, Korea, Hong Kong and Japan. China represented almost 40.0% of the total imports of stainless steel kitchenware in 2004.

In contrast with the import figures, export of stainless steel products have been improving from 2001 to 2003. Total exports of stainless steel products jumped 57.4% in 2002 to RM45.8 million from RM29.1 million in 2001. Meanwhile, it improved marginally by 9.2% in 2003 to RM50.0 million. In 2004, the export of stainless steel products decreased by 21.6% to RM39.2 million with major export destination countries such as Japan, Singapore, Hong Kong, USA and Indonesia.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

Our cookware export revenue for 2004 was approximately RM29 million which contributed 74% to the total stainless steel kitchenware and cookware export market in Malaysia.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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##### 4.6.6 Demand and Supply

###### *Demand*

The demand for cookware is mainly derived from the household sector and commercial sector such as restaurants. These two (2) sectors are the major consumers of cookware products.

The household segment is the main demand driver for cookware as cooking is a necessity in every household. As the society evolves and the economy expands, the number of household increases and becomes more affluent. Therefore, demand for cookware tends to depend on the innovative design as well as its function as a convenient and healthy cooking tools.

Based on the housing census conducted in 2000, there are a total of 4.9 million households in Malaysia, whereby the urban population reached 3.1 million households. Urban level, measured by the number of urban households as compared to the total households, stood at 63.5% in 2000 compared to only 25.6% in 1970. Total households have been growing at an annual compounded growth rate of 3.2% (1970-2003), while the growth rate in urban households was 6.4%. This is attributed to rapid development and urbanization rate Malaysia underwent for the last 30 years.

Concurrently, the monthly household income in Malaysia has risen from a mean RM2,472 in 1999 to RM3,011 in 2002 (21.8% growth). The RM3,000 and above monthly household income segment constituted 32.5% of the total monthly household income distribution in 2002.

It can be observed that demand for premium cookware mainly comes from the urban population, which generally has a higher disposable income and standard of living. Besides, only with such level of disposable income, a household is able to indulge in luxurious and classy cookware. This is aided by the fact that income level has improved significantly over the last four (4) years.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

###### *Supply*

All high-end stainless steel cookware such as Queen, WMF and Alessi are imported, save for the Buffalo brand which is manufactured locally by the NHR Group.

Currently, there is no other significant manufacturer of high-end stainless steel cookware in Malaysia, due to the relatively high-entry barrier of the industry. This would include the technical and technology know-how of producing high-grade stainless steel cookware, heavy capital investment, high raw material cost due to the usage of multi-ply clad metals and renowned brand name to appeal to the high-end buyers. The lack of a strong brand name and high-end customer base would serve as a deterrent to potential players in this segment. Without it, potential players will have to bear a huge risk in terms of the massive capital outlay for the technical and technology know-how and the necessary equipment to produce the high-grade stainless steel cookware.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

Being a seasoned manufacturer in Malaysia, our track record has provided us with significant market penetration. Among the local cookware manufacturers, we continue to expand our reach in Malaysia and overseas with our quality products and create a greater barrier for any new entrants.



#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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##### 4.6.7 Substitute Products

Generally, there is product substitutability from the glass and ceramic ware as well as the plastic cookware. This is due to the changing and hectic lifestyles of the urban society. As with most modern households today, both parents are working and there is limited time devoted for cooking. Most households would prefer the easier and faster way of cooking through the microwave oven. Due to this, most cookware made for microwave cooking are glass, ceramic and plastic cookware.

Nevertheless, the threat is still minimal as these cookware (glass, ceramic and plastic) cannot withstand intense heat when cooking on normal cooktop, are breakable (glass and ceramic) and cannot be used for induction cooking. Stainless steel cookware is the most preferred choice among many households due to its non-corrosive nature and durability.

Most of the high-end or premium cookware manufacturers in the world, such as, Meyer, WMF, and All-Clad, use multi-ply stainless steel in their range of products. This is in recognition of the durability and versatility of multi-ply stainless steel.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

##### 4.6.8 Industry Trends

Cookware comes in a variety of materials – non-metal type which consists of ceramic, plastic and glass whilst the metal type comprises stainless steel, melamine, copper and a combination of materials.

Even though cookware has been around for ages, the breakthrough in technology has harnessed greater application to cookware, whether in terms of durability or greater ease of cooking using superior materials technology to evenly spread the heat during cooking. Effectively, this evolution has changed the popularity of certain materials over the others. Stainless steel cookware has been used for quite sometime now. The difference is that manufacturers have managed to innovate and come out with different versions and combinations to incorporate in the stainless steel cookware, for example clad metals are a combination of stainless steel and aluminium. Cookware made of clad metals is of better quality and usually priced on the higher-end of the stainless steel cookware market.

Nowadays, stainless steel cookware has more added features like non-stick bottoms, wear resistance, more durable, corrosion resistance, even heat distribution and retention, and mirror-like surfaces.

The multi-ply stainless steel clad metal cookware is also driven by the latest form of cooking known as “induction cooking”. This form of cooking is fast catching on as the one of the most efficient, safest and cost-efficient cooking methods in Malaysia and developed countries. Induction cooking uses the pan as the heat source of the cooking system, where a high induction coil under a ceramic cooktop creates magnetic friction within the pan to cook the food, without heating the cooktop surface itself. The pan will heat up in the same way as the traditional electric or gas top cookers. Induction cooking is safer and cheaper than the traditional methods as it does not require any flammable gases for cooking, thus providing a better heat control simultaneously with no preheats required.

The safe, efficient and cost-saving characteristic is expected to spur the growth in demand for this category of cookware and its peripheral products, especially in the restaurants and urban households where these properties are highly essential.

There is an increasing trend in the outsourcing of cookware manufacturing to OEMs and ODMs. The outsourcing generally flows to the Asian region to capitalise on the low labour cost.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

We expect to benefit from the increasing outsourcing trend of cookware manufacturing given our competitive edge in terms of pricing, design and manufacturing capabilities, quality and experienced management. We are able to provide a mixture of quality and price that will suit the European and American high-end cookware retailers. Further, cookware manufacturers in Thailand and China are still mainly focused on the low-to-mid end market. Their main strength is based on labour cost competitiveness rather than quality.

##### 4.6.9 Prospect and Outlook of the Industry

As the outlook for the Malaysian economy as well as the global economy looks increasingly positive, the outlook for the cookware industry looks promising too. A positive economy will lead to growth in all related economic activities such as agriculture, manufacturing and services sectors. Consequently, the cookware sector will benefit from promising prospects.

The Malaysian economy is targeted to grow by 5% to 6% in 2005. The local market contributed approximately 5% to the NHR Group's revenue last year. Meanwhile, the export prospects of the NHR Group are bright as the pace of global economy picks up. Its biggest export market, Japan (54% of total revenue), has awakened from its decade long slump and is estimated to achieve a GDP growth of 1.3% in 2005 after managing a 2.6% growth in 2004. USA and Europe are projected to grow at 3.9% and 2.3% respectively in 2005. As for Hong Kong and Taiwan, economic performances are estimated to grow at 4.5% and 4.9% respectively in 2005.

The pegging of the RM to USD has provided stability to trade. Recent depreciation of the greenback has pulled down the value of RM as well, thus making the import cost of Malaysian-made products cheap. This is a boon to local exporters like the NHR Group. Improving global economy will induce a rise in production, employment and wage, which in turn leads to higher disposable income, and together with a higher value of currency (which makes import cheaper), will prompt stronger demand for Malaysian products.

Similarly, the rise in economic activities and income level will also spur demand for high-end product, as standard of living improves and lifestyle changes. The Group envisages to benefit greatly from this as it positions its products in the high-end.

Society will become more affluent and do not mind paying the high price for high-end cookware as long as it can deliver good quality cooking. The current trend into healthy cooking should augur well for the high-end stainless steel cookware industry as this high-end cookware is well known for preserving the original flavours and nutrients of the food when cooking.

The changing cooking style and needs have provided a market for the NHR Group's products. The growing popularity of induction cooking is expected to be hugely beneficial to the Group, which provides high quality magnetic multi-ply stainless steel cookware that is suitable for this cooking method.

Furthermore, the transition to this way of cooking is growing rapidly, especially in the more developed countries like USA, Japan, Taiwan, Hong Kong, South Korea, and Europe. It is before long Malaysia will follow suit.

Generally, induction cooking is more advantageous than traditional methods due to its cost-efficiency, safety features and user-friendliness.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*



#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.6.10 Industry's Reliance on Imports

The stainless steel cookware industry is highly dependent on the imports of raw materials such as stainless steel and PTFE. The NHR Group faces this dependency as it cannot source for local production of high quality stainless steel. Thus, the Group has to import most of the high quality stainless steel from Japan and through trading houses in Malaysia and Singapore.

PTFE is essential in the manufacturing processes as it creates outstanding coating adhesion for the non-stick coating process. PTFE is inert to virtually all chemicals and is considered the most slippery material in existence. PTFE has become a familiar household product, recognized worldwide for the superior non-stick properties associated with its use as a coating on cookware and as a soil and stain repellent for fabrics and textile products. PTFE is sourced from key suppliers such as DuPont.

(Source: Infocredit D&B (Malaysia) Sdn Bhd)

##### 4.6.11 Industry Players and Competition

Based on a research conducted by Infocredit D&B (Malaysia) Sdn Bhd, all high-end stainless steel cookware in Malaysia are imported save for the "Buffalo" brand which is manufactured locally in Malaysia by our Group. For a brief summary, the table below illustrates the characteristics of the cookware in the different segment of the industry:

Market Segment	Materials Used	Source	Brand	Type of Product	Price Range (RM)
High-end	Mainly uses multi-ply clad metals ranging from 5 to 9-ply	Imported	Queen	Other Cookware (set)	1,100 to 1,250
		Imported	WMF	Pressure Cooker	650 - 1,400
				Other Cookware	400 - 700
		Imported	Alessi	Pressure Cooker	700 - 1000
			Other Cookware	500 - 800	
		Locally manufactured <sup>1</sup>	Buffalo	Pressure Cooker	650 - 1,200
				Other Cookware	300 - 800
Medium-end	Mainly uses 3-ply clad metals or sandwiched bottom	Imported	La Gourmet	Other Cookware	70 - 700
		Imported	Meyer	Other Cookware	60 - 400

## 4. INFORMATION ON OUR GROUP (Cont'd)

Market Segment	Materials Used	Source	Brand	Type of Product	Price Range (RM)
		Imported	Innova	Pressure Cooker	200 – 400
		Imported	Tefal	Pressure Cooker Other Cookware	200 – 900 300 – 500
Low-end	Mainly uses single-ply stainless steel	Imported	Zebra	Pots Other Cookware	29 – 90 29 – 70
		Imported	555	Pots	29 - 50
		Locally manufactured <sup>2</sup>	Eagle	Other Cookware Pots	10 – 50 10 – 50
		Locally manufactured (by ODM/OEM)	Metro	Other Cookware Pots	10 – 50 30 – 50
		Locally manufactured <sup>3</sup>	Home+Plus	Pots	20 – 50

**Notes:**

1. *Manufactured by the NHR Group*
2. *Manufactured by Central Aluminium Manufactory Sdn Bhd, a subsidiary of CAM Resource Berhad*
3. *Manufactured by Kemasik Industries Sdn Bhd*

Currently, there is no other significant manufacturer of high-end stainless steel cookware in Malaysia, due to the relatively high-entry barrier of the industry. This would include the technical and technology know-how of producing high-grade stainless steel cookware, heavy capital investment, high raw material cost due to the usage of multi-ply clad metals and renowned brand name to appeal to the high-end buyers. The lack of a strong brand name and high-end customer base would serve as a deterrent to potential players in this segment. Without it, potential players will have to bear a huge risk in terms of the massive capital outlay for the technical and technology know-how and the necessary equipment to produce the high-grade stainless steel cookware.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

Being a seasoned manufacturer in Malaysia, our track record has provided us with significant market penetration. Among the local cookware manufacturers, we continue to expand our reach in Malaysia and overseas with our quality products and create a greater barrier for any new entrants.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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##### 4.6.12 Government Legislation, Policies and Incentives

Although the stainless steel cookware industry is small compared to the overall manufacturing industry, there are government incentives to encourage the growth of the industry. Among the government incentives are:

- **Tax exemption on the value of increased exports**

To promote exports, manufacturing companies in Malaysia qualify for:

- The tax exemption on the statutory income equivalent to the 10% of the value of increased exports, provided that the goods exported attain at least 30% value-added; or
- A tax exemption on the statutory income equivalent to 15% of the value of increased exports, provided that the goods exported attain at least 50% value-added.

To further encourage the export of Malaysian goods, a locally-owned manufacturing company with Malaysian equity of at least 60% is eligible for:

- A tax exemption on the statutory income equivalent to 30% of the value of increased exports, provided the company achieves a significant increase in exports;
- A tax exemption on the statutory income equivalent to 50% of the value of increased exports, provided the company succeeds in penetrating new markets;
- A full tax exemption on the value of increased exports, provided the company achieves the highest increase in export in its category.

- **Incentive for R&D**

A company that undertakes in-house R&D to further its business can apply for an Investment Tax Allowance ("ITA") of 50% on the qualifying capital expenditure incurred within 10 years. The company can offset the allowance against 70% of its statutory income in the year of assessment.

Below are some of the tax incentives which are applicable to the NHR Group:

- **Pioneer Status**

Companies manufacturing promoted products or undertaking activities will be granted a 100% exemption of income tax, i.e. on 100% of the statutory income for five (5) years.

- **Investment Tax Allowance ("ITA")**

This incentive is extended to companies participating in a promoted activity in Malaysia or in the production of a promoted product, particularly companies involved in the sectors of manufacturing, agriculture, hotel and tourism business. Companies which obtained ITA approval are given a flat rate of 60% of qualifying capital expenditure incurred for the purpose of the promoted activity or product for five (5) years.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

- **Reinvestment Allowance**

Reinvestment Allowance is given to manufacturing and agriculture companies which are undertaking expansion, modernisation and diversification activities in its existing business into any related product within the same industry. Companies with approved reinvestment allowance are given a flat rate of 60% reinvestment allowance in respect of qualifying capital expenditure and the allowance can be utilised to set off up to 70% of statutory income in the assessment year.

- **Double deductions**

Double deductions are granted for non-capital expenditure incurred on R&D approved by the Inland Revenue Board, and approved expenditure incurred for the purpose of seeking, creating or increasing opportunities for export of goods or agriculture produce, manufactured produced, assembled, processed, packed, graded or sorted in Malaysia, are also eligible for double deductions.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

#### 4.7 Major Customers

Our ten (10) largest customers for the financial year ended 31 December 2004 are as follows:

Name of the customers	Country	Sales contribution (RM'000)	% contribution to total sales (%)	Length of relationship (Year)
Cookware manufacturer	Japan	5,317	14	2
Sun New	Taiwan	3,999	11	1
Main Plan Ltd	Hong Kong	3,427	9	11
Ito Aluminum Ind. Co. Ltd	Japan	2,426	6	8
Zojirushi Corporation	Japan	2,407	6	3
Yoshino Inc	Japan	2,081	5	1
Nakayamafuku Co Ltd	Japan	1,838	5	14
NAC Corporation	Japan	1,704	5	4
Tokado Company Ltd	Japan	1,459	4	7
Won IL Corporation	Korea	1,276	3	3

For the financial year ended 31 December 2004, our ten (10) largest customers accounted for approximately 68% of our Group's total revenue. We have built a good rapport with our customers and the continuous orders from our customers through the years is a testimony of the strong working relationships we have established with our customers. We believe that, with the diversity of our export markets and our large customer base, we are not overly dependent on any single market or customer.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### 4.8 Major Suppliers

Our ten (10) largest suppliers for the financial year ended 31 December 2004 are as follows:

Name of supplier	Country	Total cost of purchases (RM'000)	%	Length of relationship (Year)	Products / Services supplied
Gotoh & Co Ltd	Japan	2,376	11	15	Stainless steel
Tejana Trading Corporation Sdn Bhd	Malaysia	2,304	11	3	Stainless steel
Mc Hanwa Pte Ltd	Singapore	2,059	9	7	Stainless steel
Rican Enterprise Corporation	British Virgin Islands	1,777	8	2	Cookware and kitchenware accessories
Aluminium Company of Malaysia Berhad	Malaysia	1,743	8	2	Aluminium
NHI	People's Republic of China	970	4	2	Cookware and kitchenware accessories
Prime Packaging Industries Sdn Bhd	Malaysia	540	2	13	Packaging materials
Teckwah Paper Products Sdn Bhd	Malaysia	522	2	2	Packaging materials
Qingdao Samkyung Metals Co., Ltd	People's Republic of China	444	2	2	Handles and knobs
Nakamura Engineering	Malaysia	413	2	4	Subcontracting, mould and jigs & spare parts

Our major raw materials, namely stainless steel clad metals, are manufactured in-house by EGAM. The principal raw materials for clad metals are high-grade stainless steel and aluminium. We purchase stainless steel from a few suppliers. For the financial year ended 31 December 2004, purchases of stainless steel represented approximately 31% of our total purchases. We purchase our raw materials from a pool of suppliers who have an established track record and are able to provide constant supply at competitive prices.

We have established a good and long term relationship with our major suppliers and are able to obtain regular and adequate supply of raw materials at competitive prices. We are not overly dependent on any single supplier. Our management has extensive experience in purchasing raw materials and is well versed with the market trends of the raw materials prices and their availability. Our management is confident that we are able to identify additional suppliers to procure supply of raw materials should the need arise.

##### 4.9 Our Future Plans, Strategies and Prospects

The current trend into healthy cooking should augur well for the high-end stainless steel cookware industry as this high-end cookware is well known for preserving the original flavours and nutrients of the food when cooking. The changing cooking style and needs have provided a market for the NHR Group's products. The growing popularity of induction cooking is expected to be hugely beneficial to the Group, which provides high quality magnetic multi-ply stainless steel cookware that is suitable for this cooking method. Generally, induction cooking is more advantageous than traditional methods due to its cost-efficiency, safety features and user-friendliness.

*(Source: Infocredit D&B (Malaysia) Sdn Bhd)*

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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We expect to benefit from the increasing trend of cookware retailers outsourcing the manufacturing of their products to third parties like OEMs and ODMs, especially to Asian manufacturers (lower labour costs) to reduce their costs. We stand to benefit from this trend.

In the light of the industry trend and prospects, our future plans and strategies are summarised as follows:

**(a) Product Diversification**

Currently, our product range is segregated into five (5) broad categories, namely premium multi-ply stainless steel cookware, pressure cookers, kitchen accessories, stainless steel convex mirrors and clad metals. With the vast experience of our Directors and senior management in product design, metal forming, fabrication and stamping and international marketing, we are capable of diversifying our product range and increasing our product offering.

We would continue our product diversification strategy through continuous product research, design and development as set out in Sections 4.4.6 and 4.4.10 of this Prospectus. We intend to design new types of cookware and kitchenware to meet the different consumer needs in the Asian and Western markets.

We plan to conduct further market research on the other types of non-stick and induction cookware, stainless steel convex mirrors and clad metals required by consumers. We also intend to diversify the types of stainless steel convex mirrors to meet the legal or market requirements of new target markets and to design stainless steel inspection mirrors for the usage by law enforcement agencies worldwide. For clad metals, we intend to conduct further R&D on other types of clad metals such as titanium-aluminium and copper-aluminium clad metals for use in the electrical and electronics industry.

**(b) Marketing and Business Development**

We would continue to explore new export markets such as Australia, Thailand, the Philippines and Indonesia. In line with our strategy to develop our premium cookware for the OEM/OEM market globally, we would continue our focus on securing more customers in existing markets and seek new export markets to broaden our geographical reach.

Our cookware would be targeted at the middle and upper income consumer market which has relatively higher disposable household income. We would continue to implement advertisement and promotional strategies to build brand awareness in Malaysia. We would also work closely with our existing master dealers on marketing strategies to improve sales and promotional activities in each respective country.

We intend to continue seeking reputable cookware and consumer electrical and electronic manufacturers for long term partnerships. Long term relationships are normally forged due to the mutual reliance on each other's strengths. Whilst our OEM/ODM customers benefit from our R&D and our manufacturing capabilities, we will benefit from their marketing and distribution channels. Given our business track record with reputable overseas brands, we believe that we would be able to tap into new opportunities in the OEM/ODM cookware market.