

3. PARTICULARS OF THE RESTRICTED ISSUE AND SPECIAL ISSUE

3.1 Introduction

This Prospectus is dated 28 August 2003.

A copy of this Prospectus has been registered with the SC and lodged with the Registrar of Companies, who takes no responsibility for its contents.

The approval of the SC obtained vide its letters dated 2 December 2002, 24 December 2002, 7 March 2003, 18 March 2003, 20 June 2003, 7 July 2003, 7 August 2003 and 25 August 2003 shall not be taken to indicate that the SC recommends the Restricted Issue and the Special Issue. Investors should rely on their own evaluation to assess the merits and risks of the Restricted Issue and the Special Issue.

An application will be made to the KLSE within three (3) Market Days of the issuance of this Prospectus for the following:-

- (a) The admission of MTHB to the Official List of the KLSE; and
- (b) The listing of and quotation for the following on the Second Board of the KLSE:-
 - (i) The entire enlarged issued and paid-up capital of MTHB of 84,002,460 Shares upon the completion of the Restructuring Scheme; and
 - (ii) Up to 18,000,000 new Shares in MTHB to be issued upon the conversion of the RCULS.

The admission of MTHB to the Official List of the KLSE and the official quotation of MTHB Shares will commence upon receipt of, amongst others, confirmation from MCD that all the CDS accounts of the successful applicants for the RI Shares and SI Shares have been duly credited with the respective Shares and notices of allotment have been despatched to all the successful applicants.

The acceptance of applications for the RI Shares and SI Shares will be conditional upon approval being granted by the KLSE in respect of the above-mentioned application. Accordingly, monies paid in respect of any applications accepted for the RI Shares and SI Shares will be returned without interest if the said approval for listing is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC).

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the KLSE has prescribed MTHB Shares to be deposited with MCD. In consequence thereof, the RI Shares and SI Shares to be issued through this Prospectus will be deposited directly with MCD and any dealings in these Shares (after acceptance of/application for and payment for these Shares) will be carried out in accordance with the aforesaid Act and the Rules of MCD.

The KLSE assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus. Admission to the Official List of the KLSE is not to be taken as an indication of the merits of MTHB or the Restricted Issue or the Special Issue.

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

The distribution of this Prospectus and the making of the Restricted Issue and the Special Issue in certain other jurisdictions outside Malaysia may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the RI Shares and SI Shares in any jurisdiction in which such invitation is not authorised or lawful, or to any person to whom it is unlawful to make such an invitation.

If you are unsure of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

3.2 Share Capital

	RM
<i>Authorised</i>	
150,000,000 ordinary shares of RM1.00 each	<u>150,000,000</u>
<i>Issued and Fully Paid-Up</i>	
58,000,001 ordinary shares of RM1.00 each	58,000,001
<i>To be Issued Pursuant to the Special Issue</i>	
13,000,000 ordinary shares of RM1.00 each	13,000,000
<i>To be Issued Pursuant to the Restricted Issue</i>	
7,999,999 ordinary shares of RM1.00 each	7,999,999
<i>To be Issued Pursuant to the Mandatory Offer</i>	
5,002,460 ordinary shares of RM1.00 each	5,002,460
<i>Enlarged Capital Upon Listing</i>	
84,002,460 ordinary shares of RM1.00 each	<u>84,002,460</u>
<i>To be Issued Assuming Full Conversion of RCULS</i>	
Up to 18,000,000 ordinary shares of RM1.00 each	18,000,000
<i>Enlarged Capital Assuming Full Conversion of RCULS</i>	
Up to 102,002,460 ordinary shares of RM1.00 each	<u>102,002,460</u>

There is only one (1) class of shares in the Company, namely ordinary shares of RM1.00 each. The RI Shares and SI Shares shall rank pari passu in all respects with the existing issued Shares of the Company, including voting rights and rights to all dividends and distributions that may be declared, made or paid subsequent to the date of allotment thereof.

The new Shares arising from the conversion of the RCULS shall, upon allotment and issue, rank pari passu in all respects with the then existing Shares of MTHB, except that these new Shares will not be entitled to any dividends, rights, allotments and/or any other distributions that may be declared, made or paid, the entitlement date of which is prior to the allotment date of such new Shares.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of MTHB Shares shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of the liquidation of the Company, such surplus to be distributed amongst the members in proportion to the capital paid-up at the commencement of the liquidation, in accordance with the Company's Articles of Association and the provisions of the Companies Act, 1965.

Each shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and, on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one (1) vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each Share held. A proxy may but need not be a member of the Company.

3.3 Restricted Issue

3.3.1 Purposes of the Restricted Issue

The purposes of the Restricted Issue are as follows:-

- (a) To achieve the public shareholding spread requirement pursuant to the SC's Policies and Guidelines on Issue/Offer of Securities; and
- (b) To give the Entitled Shareholders of MTHB, who were the former shareholders of Kiara Emas, an opportunity to increase their shareholding after the completion of the Shareholders' Scheme.

3.3.2 Details of the Restricted Issue

Pursuant to the Restricted Issue, a total of 7,999,999 RI Shares will be offered to the Entitled Shareholders of MTHB, on a rights basis of one (1) RI Share for each MTHB Share held at 5.00 p.m. on the Entitlement Date, at an issue price of RM1.00 per RI Share.

The Restricted Issue is renounceable. Entitled Shareholders have the right to apply for additional RI Shares in excess of their entitlements. However, the Board reserves the right to allot any excess RI Shares applied for in such manner as the Board deems fit or expedient.

In determining the entitlements of Entitled Shareholders to the RI Shares, fractional entitlements will be disregarded. The Board shall deal with fractional entitlements at its absolute discretion in such manner as to minimise the incidence of odd lots. Any RI Shares not taken up shall first be made available for excess RI Shares applications and if under-subscribed, will be subscribed for and placed out by Ample Potential and/or Excellent Avenue.

There is no minimum level of subscription in respect of the Restricted Issue.

3.3.3 Critical Dates of the Restricted Issue

The tentative timetable in relation to the Restricted Issue is set out below: -

Events	Tentative Dates
Issue of Prospectus	28 August 2003
Last day and time for Splitting	3 September 2003 at 5.00 p.m.*
Last day and time for Acceptance and Payment	9 September 2003 at 5.00 p.m.*
Last day and time for Renunciation and Payment	9 September 2003 at 5.00 p.m.*
Last day and time for Excess Shares Application and Payment	9 September 2003 at 5.00 p.m.*
Tentative Date of Allotment	15 September 2003
Tentative Date of Despatch of Notices of Allotment	17 September 2003
Tentative Listing Date	24 September 2003

Note:-

- * *or such later date and time as the Board and AmMerchant Bank in their absolute discretion may decide and announce*

The Restricted Issue will close on the date stated above or such later date as the Board of MTHB in its absolute discretion may decide. Any changes to the application period for the Restricted Issue will be notified to the public via an advertisement in a daily English newspaper.

3.3.4 Basis of Arriving at the Issue Price

The issue price of RM1.00 per RI Share was arrived at after taking into consideration the issue price of MTHB Shares issued pursuant to the Acquisition, being RM1.00 per Share.

3.3.5 Underwriting and Placement of RI Shares

In the event that any RI Shares are not subscribed for by the Entitled Shareholders, Ample Potential and Excellent Avenue have, vide a letter dated 28 April 2003, irrevocably and unconditionally undertaken to subscribe for such RI Shares and to place them out to investors so as to enable MTHB to comply with the public shareholding spread requirement. No commission shall be payable to Ample Potential and Excellent Avenue.

In view of the above-mentioned arrangement, the Restricted Issue is not underwritten. As at the date of this Prospectus, no placees have been identified. The placees to be identified shall be persons other than the directors or substantial shareholders of MTHB or persons connected with them.

3.4 Special Issue

3.4.1 Purposes of the Special Issue

The purposes of the Special Issue are as follows:-

- (a) To increase the Bumiputra equity participation in MTHB;
- (b) To achieve the public shareholding spread requirement pursuant to the SC's Policies and Guidelines on Issue/Offer of Securities; and
- (c) To further strengthen the NTA and cash flow position of MTHB.

3.4.2 Details of the Special Issue

Pursuant to the Special Issue, a total of 13,000,000 SI Shares will be placed out to selected Bumiputra/non-Bumiputra investors, at an issue price of RM1.00 per SI Share. The Placement Agent has received irrevocable undertakings from selected investors to take up the SI Shares.

There is no minimum level of subscription in respect of the Special Issue.

3.4.3 Critical Dates of the Special Issue

The tentative timetable in relation to the Special Issue is set out below: -

Events	Tentative Dates
Issue of Prospectus	28 August 2003
Opening and Closing of Application List for the SI Shares	9 September 2003
Tentative Date of Allotment	15 September 2003
Tentative Date of Despatch of Notices of Allotment	17 September 2003
Tentative Listing Date	24 September 2003

The Special Issue will close on the date stated above or such later date as the Board of MTHB in its absolute discretion may decide. Any changes to the application period for the Special Issue will be notified to the public via an advertisement in a daily English newspaper.

3.4.4 Basis of Arriving at the Issue Price

The issue price of RM1.00 per SI Share was arrived at after taking into consideration the issue price of MTHB Shares issued pursuant to the Acquisition, being RM1.00 per Share.

3.5 Utilisation of Proceeds

The gross proceeds of the Restricted Issue and the Special Issue amounting to RM20,999,999 will be utilised for the following purposes:-

- (a) Up to RM6,796,000 will be used to satisfy 50% of the interest accruing on the total amount owing to the Bank Creditors as at 31 March 2001, for the period commencing on 1 April 2001 and ending on the date of issuance of the RCULS, inclusive of both dates, assuming that the RCULS will be issued on 31 December 2003. Any variation in the actual amount of interest payable to the Bank Creditors will be adjusted in the portion of the proceeds to be utilised for working capital purposes; and
- (b) The remainder will be used for working capital of the Stone World Group.

The proceeds raised will contribute towards the growth and expansion of the MTHB Group's business in the form of working capital and reduce the need for borrowings. The proceeds of the Restricted Issue and the Special Issue are expected to be fully utilised within six (6) months from the date of receipt of the proceeds.

3.6 Expenses of the Restricted Issue and the Special Issue

The Restricted Issue and the Special Issue are not underwritten and hence, no underwriting fees are payable. In the event that any unsubscribed RI Shares have to be placed out by Ample Potential and/or Excellent Avenue, the placement fees will be borne by Ample Potential and/or Excellent Avenue, as the case may be. A placement fee of 0.5% on the Special Issue amounting to RM65,000 is payable to the Placement Agent.

The expenses of the Restructuring Scheme, of which the Restricted Issue and the Special Issue form a part, are estimated at approximately RM2.0 million, with the following estimated breakdown:-

	RM'000
Professional fees	1,500
Fees of the authorities	135
Placement fee	65
Printing, advertising and other miscellaneous expenses	300
Total	<u>2,000</u>

The expenses of the Restructuring Scheme will be financed from the proceeds of disposal of the property held under GM121, Lot 837 (New Lot No. 3085), Mukim and District of Petaling, which was owned by HLCSB, one of the former subsidiaries of Kiara Emas.

4. RISK FACTORS

If you are unsure about any of the information contained in this section on "Risk Factors", you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

In addition to the other information in this Prospectus, the following factors should be considered carefully in evaluating an investment in the RI Shares and SI Shares offered by this Prospectus.

Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Section 4 "Risk Factors", Section 5 "Information on the MTHB Group" and Section 8 "Financial Information" of this Prospectus, as well as those discussed elsewhere in this Prospectus.

4.1 Business Risks

The MTHB Group is subject to certain risks inherent in the dimension stone industry such as lengthy sales cycle of between 3 to 18 months, debtors' collection problems, customer-order deferrals, changes in the Group's production costs or operating expenses, and other business risks common to going concerns. Because of such uncertainties, it is impossible to predict the future results of the MTHB Group with certainty and therefore there can be no assurance that the MTHB Group will be able to remain profitable or increase its level of profitability in the future. Furthermore, as the dimension stone industry is primarily dependent on the property and construction sectors, it is exposed to the cyclical nature of these sectors.

The directors of MTHB believe that the Group should be able to remain profitable. As at 14 August 2003, the Group had local and international contracts in hand worth approximately RM41.14 million. The Group expects to complete most of these contracts between 2003 and 2004.

The Group seeks to limit its business risks through, inter-alia, careful selection of contracts and contractual terms, and adopting a prudent credit policy. The Group's cash flow management includes regular monitoring of its debtors position, having long term relationships with its customers, close monitoring of production costs and operating expenses, and careful consideration of any proposed borrowing or capital expenditure and its effects on the Group.

4.2 Economic, Political and Regulatory Conditions

Like all other business entities, changes in political, economic and regulatory conditions in Malaysia and elsewhere could materially and adversely affect the financial and business prospects or the overall profitability of the MTHB Group. These political, economic and regulatory uncertainties include, but are not limited to, changes in political leadership, unfavourable changes in the Government's policies and priorities, the introduction of new regulations, war, economic downturn, financial crises, and changes in interest rates, methods of taxation and foreign exchange regulations.

In particular, the dimension stone industry is vulnerable to the performance of the broader economy, as it is primarily dependent upon the property and construction sectors. However, whilst the Malaysian economy has been affected by uncertainties in the external environment, the Government's expansionary fiscal and monetary policies have sustained the construction sector.

During the last economic crisis, the smaller players in the dimension stone industry have been weeded out, leaving only the large, well-managed and capital-intensive stone processing companies. With its capabilities backed by modern technology resources, large-scale operations, high quality products and experienced management, the MTHB Group is in a good position to weather economic downturn. Furthermore, the Government's pump-priming measures should benefit the Group, as its business is mainly domestic in nature.

The Group's susceptibility to an economic downturn is also mitigated due to the following factors:-

- (a) The Group's product mix, where one of the Group's major product types, i.e. marble, has stable and recurring demand;
- (b) Diversification of the Group's range of dimension stone products, especially into other value-added products such as special works of sculpture, dining/console/coffee tables, etc.;
- (c) Ability to tap into international markets. The high quality of the Group's products will provide ease of entry into potential new markets; and
- (d) Experienced management, which will provide a strong platform for the Group to diversify its market base, in addition to its large and established customer base.

Stone World is registered as a Grade 7 contractor with the CIDB, which allows it to undertake projects of unlimited value. Stone World also holds a manufacturing licence issued by the MITI, subject to the conditions contained therein. Further details of the aforementioned conditions are disclosed in Section 5.4.16 "Operating Licences" of this Prospectus. In addition, Stone World also employs approximately 34 foreign factory workers under the permit issued by the Ministry of Home Affairs, Malaysia.

Although the MTHB Group has complied with these requirements to date, and will use its best endeavours to continue to comply with these requirements, no assurance can be given that any future changes to the present regulations will not have an adverse impact on the MTHB Group's operations.

4.3 Competition

The dimension stone industry is oligopolistic in nature with only a few key players. However, with the exit of smaller players affected by the last economic crisis, the industry is now trending towards monopolistic competition.

The competitiveness of a company in the dimension stone industry depends on many factors including the capacity and technology of its plant, the scale of its operations, the ability of its marketing team, the quality of its products and the strength of its financial resources.

The MTHB Group faces competition in project tenders and retail sales of dimension stone products, from established local players such as Stone Master Corporation Berhad, Stone Link Sdn Bhd, Mahawira Sdn Bhd and Hock Heng Granite Sdn Bhd, as well as from foreign players such as Hua Fong Marble Co. Ltd of Taiwan, Tan Chiang Brothers Marble (S) Pte. Ltd. of Singapore and Tien Seng Marble Pte Ltd of Singapore when tendering for international contracts.

The Group, being a selective supplier, faces intense competition in terms of pricing as it markets its superior products at prices higher than the average market rates. However, in view of its reputation as a supplier that is able to cater to the most discerning tastes and its fast turnover period, the Group believes that it will be able to compete successfully against existing and potential competitors.

To compete effectively in the market, the Group positions itself as a provider of high quality dimension stone products for the high-end niche market. Essentially, value-added dimension stone products are required to be produced using sophisticated and advanced machinery. The Group's integrated processing plant in Pasir Gudang, Johor is equipped with technologically advanced machinery that enables the Group to produce high quality products with a fast turnover rate, to increase the plant's efficiency and minimise wastage, and also to compete internationally.

Although the Group seeks to stay competitive by actively participating in competitive bidding and negotiations to secure contracts, and continuing its efforts in maintaining its competitive edge in terms of cost efficiency and product quality, there can be no assurance that the MTHB Group will be able to maintain or increase its market share in the future.

4.4 Debtors' Collection

Due to the nature of the industry in which the MTHB Group operates, the debt collection period may be affected by delays in the reimbursement of retention sums for completed projects or by poor financial health of the debtors, in particular during times of economic downturn.

The management mitigates this risk by being selective of customers and screening all prospective customers for credit worthiness. The credit period for projects is usually six (6) months. The credit period for retail sales is one (1) month, with advance payment received via post-dated cheques. Telegraphic transfers are requested for sales to customers of whose credit history the Group has no record. The Group's credit policy has minimised the risk of bad debts, which has affected several of its past competitors.

Payments to suppliers are usually by letters of credit. Local suppliers generally require 30 to 60-day letters of credit, while letters of credit at sight are provided to foreign suppliers who require immediate payment upon delivery. These letters of credit at sight may be converted to trust receipts that are payable up to a maximum period of six (6) months. Interest is charged on the trust receipt facilities by the financial institutions.

As the operations of the Group's business require a substantial level of liquidity in terms of working capital, there can be no assurance that the risk of bad or doubtful debts will not adversely affect the MTHB Group in the future.

4.5 Gearing and Debt Servicing Capability

The gearing of the MTHB Group is consistent with that of other companies in the dimension stone industry. It is a common characteristic of the dimension stone industry that companies in the industry often have fairly high gearing due to the capital-intensive nature of the industry. Stone World has incurred borrowings for capital investment in its production facilities, in acquiring machinery and equipment. In view of its gearing, the MTHB Group has taken a conservative position. The management of the MTHB Group does not foresee any major investment on capital expenditure other than the extent necessary to upgrade equipment over the next few years to enhance operational efficiency.

The management of the MTHB Group believes that the business prospects of the Group as well as the contracts secured by the Group amounting to RM41.14 million as at 14 August 2003 and contracts tendered for which are eventually secured, will generate sufficient and consistent cash flows to allow the payment of interest and principal repayments under its credit facilities. The MTHB Group intends to reduce its borrowings over the next few years and in line with this, the repayment of borrowings will rank as a high priority in the utilisation of surplus cash.

4.6 Delay in Completion of Projects

The completion of a construction project on schedule is dependent on many external factors which are beyond the Group's control, such as the obtaining of approvals from regulatory authorities, the securing of materials, equipment and labour by the main contractor, the availability of financing and favourable credit terms, and the satisfactory performance of the main contractor and sub-contractors. Any delay may have an impact on the Group's profitability and cash flow.

Stone World has so far not experienced any delay in executing its contracts, due to the ample processing capacity of its plant. However, delays may arise in the transportation of its raw materials, most of which are imported and shipped from overseas.

4.7 Dependence on Key Personnel

In the dimension stone industry, the management skills and experience of the directors and key members of the senior management team are vital to continuing success. The operations of the MTHB Group are headed by Mr. Wong Thiam Loy, Mr. Tan Kin Giou and Mr. Kang Seok Sik, who collectively have more than 30 years of extensive experience in the dimension stone and construction industries. The Group believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its existing directors and senior management. The unexpected loss of any of the Group's directors or key members of its senior management team may affect its continued ability to compete in the industry until suitable replacements are employed.

However, effort is continuously being made to attract and retain skilled and experienced staff through competitive remuneration, a conducive working environment and good human resource management. With these efforts, the Group is reasonably confident that the competent younger members of its management team will be able to assume the role of their seniors smoothly and effectively in due course.

4.8 Availability / Supply of Raw Materials

The MTHB Group generally sources its supply of stone blocks from foreign quarries, unless the customers specify their preference for local dimension stones. The long-term viability of the dimension stone industry is dependent on the availability of a consistent and sustainable supply of dimension stones. While the absence of supply contracts may be perceived as a risk factor, the Group does not intend to enter into any long term supply contracts as the current abundance of supply allows the Group to negotiate better rates and supply quality and also to switch raw materials according to the specific requirements of individual customers.

The raw materials procured from overseas would be subject to the supply and demand conditions governing the international dimension stone market. The Group does not anticipate that there will be any shortage of raw material supplies in the foreseeable future. Generally, the Group's customers will specify the stone types that they require, and there are usually a few producers for each stone type. Alternatively, the Group may propose other stone types apart from those specified by the customers.

Whilst the Group does not anticipate vulnerability due to shortage of raw material supplies, there is no assurance that risks such as disputes concerning the quality and specifications of stone blocks purchased, unfavourable terms of purchase, difficulty in procuring specific materials or continuity of the supply of specific materials will not have a material adverse impact on the Group's business.

4.9 Foreign Exchange Risk

The Group's raw materials are mainly imported from Italy, Spain, India, South Africa, the United States of America and Greece. The Group takes the view that its exposure to foreign currency fluctuations is limited. Purchases of raw materials from foreign quarries and sales of dimension stone products via contract-based international projects are denominated in either the Singapore Dollar or the United States Dollar. The pegging of the Ringgit to the United States Dollar helps to limit the exposure to foreign currency fluctuations. In addition, purchases of imported stone blocks are usually made against specific customer orders.

However, there can be no assurance that the pegging of the Ringgit to the United States Dollar will continue indefinitely or that adverse movements in foreign exchange rates in the future will not result in lower profit margins or possible losses to the Group.

4.10 Forward-Looking Statements

This Prospectus contains forward-looking statements, which are statements other than statements of historical facts. All such forward-looking statements are based on estimates and assumptions made by the management of the MTHB Group, and although believed to be reasonable, are subject to known and unknown risks, uncertainties and contingencies which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. In the light of the foregoing, the inclusion of a forward-looking statement in this Prospectus should not be regarded as a representation or warranty by the MTHB Group or AmMerchant Bank that the plans and objectives of the MTHB Group will be achieved.

4.11 Achievability of Forecasts

The profit forecasts of the MTHB Group and the Stone World Group that are contained in Section 8 of this Prospectus are based on assumptions that are subject to inherent uncertainties. Because of such uncertainties, there can be no assurance that the forecasts contained herein will be realised and actual results may be materially different from those forecasted. Entitled Shareholders of MTHB and investors are deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecasts contained herein.

4.12 Controlling Shareholders of MTHB

Upon the listing of MTHB on the KLSE, Ample Potential, Excellent Avenue and Mr. Wong Thiam Loy will, in the aggregate, beneficially own approximately 68.83% of MTHB's enlarged issued and paid-up share capital. As a result, these shareholders, acting together, will possess voting control over the Company, giving them the ability, amongst other things, to elect at least a majority of the Company's Board of Directors and to control the vote on significant corporate transactions, unless they are required to abstain from voting by law and/or by the relevant authorities.

Nevertheless, the Company has appointed three (3) independent directors, as a step towards good corporate governance to ensure that any future transactions involving related parties are entered into on arms-length terms.

4.13 Future Capital Injections

It is the Board's opinion that the net proceeds of the Restricted Issue and Special Issue, together with cash flow from operations and other existing sources of liquidity, will be sufficient to meet the MTHB Group's projected capital commitments, working capital and other cash requirements. However, there is no assurance that future events may not cause the Group to seek additional capital sooner. If additional capital is required, there can be no assurance that it will be available or, if available, that it will be on terms satisfactory to the Group. The sale of additional equity or other convertible securities to non-shareholders will result in a further dilution in the interests of the shareholders of the Company.

4.14 Environmental Concerns

Water is used in all processing phases as a lubricating and cooling agent for both the cutting and surface treatments of the dimension stone products. As the dissolved residue and powder contained in the process water cause pollution, Stone World has in place at its plant, a process water purifying and re-circulation system. The residue is compressed and up to 80% of the recycled water is reused, thus minimising the consumption of water and significantly reducing environmental pollution.

Samples of treated water are sent to an independent laboratory every month for testing on the discharge level of the process water and the laboratory reports are then submitted to the local water authorities. An environmental test on the noise level is also performed on an annual basis. The environmental compliance record of Stone World has been satisfactory.

4.15 Threat of Substitutes

The unique qualities of dimension stones render such stones a furnishing material without any real substitutes. Whilst other materials such as wood, concrete and synthetic materials may be used as an alternative in certain usage, the inherent characteristics of these materials remain different from those of dimension stones. Amongst others, dimension stones, such as granite and marble, have natural appearances, are found in various colours and patterns that are formed naturally, are durable, and their cooling effects are well-suited to tropical climates, making them a popular choice for floor covering. Furthermore, dimension stones can be cut-to-size.

The closest substitutes for dimension stones for the purpose of commercial building and home furnishing, i.e. external and internal flooring, pavement, etc., are compressed marble, wood and steel. These substitutes do not have the workability and aesthetic appearance of dimension stones. Compressed marble is made of marble chips from the larger slabs but pales in appearance when compared to the real thing; it may be cheaper but is not long lasting. Wood, though it has a natural appearance, is monochromatic and is not as interesting as stone. Steel may be the choice of the future as it requires minimal maintenance and is rust-free; however, it lacks the aesthetic appearance of dimension stones or wood.

Whilst there is still popular demand for dimension stones in the market, the threat of substitutes is dependent on the passage of time and fashion. The advent of synthetic materials in the future may present a convincing threat to the use of conventional building materials. Hence, there can be no assurance that the robustness and continuity of the demand for dimension stones will remain unaffected by the threat of substitutes.

4.16 Breakout of Fire, Energy Crisis and Other Emergency Crisis

The MTHB Group's plant is periodically inspected by the Jabatan Bomba to detect the risk of fire. There is also adequate safety and fire-fighting equipment to ensure that the risk of fire is contained. In the event of a power failure, there are backup generators to provide contingency power supply of up to twelve (12) hours to support the operations. The use of water is also recycled in the plant, thus reducing dependence on a continuous water supply.

However, notwithstanding the measures taken, there is no assurance that any of the above-mentioned crises may not cause interruptions in the Group's operations in the future.

4.17 Sales Contribution from Related-Party Company

For the financial year ended 31 December 2002 and the five (5) months ended 31 May 2003, Major Team Builders Sdn Bhd (a company controlled by Mr. Wong Thiam Loy, who is a promoter of MTHB) contributed 33.02% and 49.59% respectively to the total turnover of the Stone World Group.

Part of the Group's business strategy is to focus on nurturing and building strong and long-term business relationships with reputable customers. Notwithstanding this, there is no assurance that any continued dependency on the contribution of any related-party companies of the Group will not result in any adverse impact on the Group's operating results.

4.18 Insurance Coverage on Assets

The Group believes that it has adequate insurance coverage on its business operations. Although the Group reviews its insurance policies on a regular basis to ensure that there is adequate coverage on its assets, there can be no assurance that the coverage would be adequate for the replacement cost of its assets or any consequential loss arising therefrom.

4.19 Risk of Rapid or Over-Expansion of Business

The Group believes that it has adequate plant capacity to accommodate the increase in the demand for its products. The Group also believes that it has an adequate workforce to cater for the growth and expansion of its business. Foreign workers are housed on the plant's premises and can accommodate extra shifts should the need arise.

However, there can be no assurance that the rapid or over-expansion of the Group's business will not strain its financial and operational resources or that the Group will be successful in managing its growth.

4.20 Risk of Legal Uncertainties

As in all other business entities, changes in regulatory conditions in Malaysia and other countries where the Group has a significant presence, including changes in tax legislation, the renewal of licences and the introduction of new regulations, could materially and adversely affect the financial and business prospects of the Group. The operations of the Group are also dependent on the continued subsistence of the main contracts under which the stone works are sub-contracted to the Group, and the continuity of Stone World's manufacturing licence.

4.21 Risk of Technological Changes

In general, the dimension stone industry is affected to a lesser extent by technological changes. The Group currently employs advanced equipment with computerised features that allow for further upgrades.

Although the Group presently employs advanced technology in running its operations, the changes in technology may affect its operational edge and competitiveness in the absence of upgrades or improvements.

4.22 No Prior Public Market for MTHB Shares and Possible Volatility of Share Price

There has been no prior public market for the Company's Shares. The issue price is based on the par value of the Shares and may not be an indication of the market price of the Shares upon or subsequent to listing and quotation on the Second Board of the KLSE.

There can be no assurance that an active public market in the Shares will be developed or be sustained after listing and quotation on the Second Board of the KLSE or that the market price of the Shares will not decline below the issue price.

The Group believes that a variety of factors could cause the price of the Shares to fluctuate, perhaps substantially, including sales of substantial amounts of the Shares in the public market in the future, announcements of developments relating to the Group's business and that of its competitors, and fluctuations in the Group's operating results and sales levels.

In addition to the fundamentals of the Group, the future performance of the price of the Shares will also depend upon various external factors such as general economic, political and industry conditions, the growth potential of the property and construction sectors on which the dimension stone industry is dependent, the performance of regional and world bourses as well as sentiments and liquidity in the local stock market.

4.23 Failure or Delay in the Listing of MTHB

The success of the listing of MTHB on the Second Board of the KLSE is exposed to the risk that it may fail or be delayed due to any of the following reasons, amongst others:-

- (a) The applicants for the Special Issue fail to acquire the SI Shares allocated to them;
- (b) Ample Potential and Excellent Avenue fail to honour their written irrevocable undertaking to subscribe for any RI Shares which are not subscribed for by the Entitled Shareholders of MTHB; and
- (c) MTHB is unable to meet the public shareholding spread requirements i.e. at least 25% of its enlarged issued and paid-up share capital must be held by a minimum of 1,000 public shareholders holding not less than 100 Shares each.

In the event of the failure of the proposed listing of MTHB on the Second Board of the KLSE, Entitled Shareholders and investors will be reimbursed their application money without interest.