

3. RISK FACTORS

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

(a) Business Risks

The CCHB Group, like other businesses operating in an open economy, is subject to market forces. CCHB Group is subject to certain risks inherent in the cables and connectors industry. These include, but not limited to labour and raw material shortages, cyclical price fluctuations for its products, increases in the costs of labour and raw materials, changes in general economic, business and credit conditions, fluctuations in foreign exchange rates, entry of new competitors, products and technologies being obsolete, new products not widely accepted, the industry experiencing downturn and/or outbreak of diseases such as the severe acute respiratory syndrome ("SARS") disease which could affect the Group's sub-contractors' operations in China. The Group seeks to mitigate such risks through, inter alia, strengthening its R&D team, increasing its product range, further diversification of customer base, enhancing its marketing channels to achieve deeper market penetration and wider coverage, and sourcing for new suppliers and sub-contractors both local and overseas. However, no assurance can be given that any change in the market forces will not have a material adverse effect on the Group.

(b) Financial Risks

Borrowings

Based on the latest management accounts as at 31 August 2005, being the latest practicable date prior to the printing of the prospectus, the Group's total borrowings amounted to approximately RM1.683 million which is in the form of term loans, overdraft, factoring, letter of credit and hire purchase financing.

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group's policy is not to engage in speculative transactions.

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate of borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

Borrowings Covenants

Pursuant to a credit facility agreement entered into by the Group a financial institution, it is bound by certain covenants which may limit the Group's operating and financial flexibility. The aforesaid covenants are of a nature which is commonly contained in credit facility agreements in Malaysia. Any act by the Group falling within the ambit or scope of such covenants may give rise to a right by the bank to terminate the relevant credit facility and/or enforce any security granted in relation to that credit facility. The Board is aware of such covenants and shall take all precautions necessary to prevent any such breach.

Foreign Currency Risk

The Group operates internationally and is exposed to USD and SGD. Foreign currency denominated assets and liabilities together with expected cash flows from purchases and sales overseas will give rise to foreign exchange exposures. As mentioned in Section 9.2.3, there is no material impact of foreign exchange on the Group's historical profits for the past five (5) financial years.

3. RISK FACTORS (Cont'd)

Bank Negara Malaysia has on 21 July 2005 announced that the exchange rate of the Ringgit with immediate effect be allowed to operate in a managed float, with its value being determined by economic fundamentals. Bank Negara Malaysia will monitor the exchange rate against a currency basket to ensure that the exchange rate remains close to its fair value. The exchange rate after shifting to this new system is not expected to deviate significantly from the current prevailing level.

The electronics industry may have to adjust to a stronger currency but that would be cushioned as it comes at a time when it is entering a period of a global cyclical upturn.

The Group's business transactions are mainly in USD in particular the purchases. Lower costs for the Group to import raw materials or components follows the strengthening of Ringgit. Nevertheless, there is no assurance that the fluctuations arising from the unpegged of Ringgit against USD will not adversely affect the financial results of the CCHB Group.

(c) New ISP

CCHB Group has developed the SATA signal cable which conforms to the SATA standard that is ready for commercial production. Details of the SATA standard are elaborated in Section 4.4.10 of this Prospectus. SATA is a storage interface specification for the next generation computing platform and is a replacement for parallel ATA physical storage interface (*source: www.sata-io.org*). The success of the SATA signal cable in the market will depend on customer's acceptance of the Group's products in terms of, among others, pricing, product performance and branding. The competitive risk is mitigated, as according to the Overview of the World Connector Industry and SATA report dated 31 August 2005, by Bishop & Associates, Inc. prepared for inclusion in this Prospectus, RCI is the only identified manufacturer (*capable of*) high volume signal cable assembly with operations in the US. The cable assembly is automated so that they can compete with the off-shore companies (*i.e. companies with manufacturing facilities in overseas countries where operating costs are relatively lower*).

The launch of other new products is subject to inherent risks in the launching of new products (including unanticipated delays, expenses and technical difficulties). The success of these products will also depend on customer's acceptance of the Group's products in terms of, among others, pricing, product performance and branding.

(d) Long Design-In Cycle

The Group's custom and industry standard interconnect products are subject to various tests and extensive evaluations by the customers before being incorporated into their equipment. This evaluation process may range or exceed six to ten months as it is associated with long testing and approval processes. In addition, it can take additional six to ten months before the customer generates forecasted volumes. The Group's business, operating results and financial conditions could be materially and adversely affected if customers cancel or delay projects. To mitigate this risk, the Group conducts proper resource management and carries out several projects of different stages at one time.

Design-discovery (*i.e. a situation where a solution is proposed from basic concept*) has no assurance that the Group will provide an acceptable solution to the customers. Similarly, design-win (*i.e. a situation where the solution has been accepted by the customer*) has no assurance that the solution will be ultimately incorporated into the customer's products and utilised commercially. The Group seeks to mitigate this risk by conducting market surveys and gather information that will support the Group's decision to venture into a project with a particular customer. In addition, the Group engages in design-in projects with well-known customers or engages in generational products (*i.e. products which evolved with new specifications for each generation*) as these are likely to gain wider market acceptance.

3. RISK FACTORS (Cont'd)**(e) Reliance on Single Dies and Moulds In The Production of Connector Terminals**

It is essential that the dies and moulds used by the Group for the production of interconnect products are of high quality and meet the Group's products specification, failing which more time will be spent fine tuning the dies and moulds. The dies and moulds may also be damaged during transportation, production run or maintenance. Consequently, CCHB Group may be faced with production and delivery delays that may require costly corrective actions. The Group mitigates this risk by carrying out intensive pilot runs to test out the dies and moulds. The Group also applies stringent handling and maintaining procedures where only highly skilled and trained (certified) personnel are allowed to handle the equipment. Before the mould life cycle ends, the Group will phase out the use of the old moulds and bring in new ones.

(f) Dependence on Certain Customers

The top three (3) customers of the Group for the financial years ended 31 December 2003 and 2004 are as follows:-

Financial Year Ended 31 December 2003	Financial Year Ended 31 December 2004
1. HNS Inc., USA	1. Thomson
2. Teac Electronics (M) Sdn Bhd	2. HNS Inc., USA
3. Loud Technology Inc. (Mackie), USA	3. Teac Electronics (M) Sdn Bhd

These customers accounted for approximately 67% and 59% of the Group's total turnover for the financial years ended 31 December 2003 and 2004 respectively. Although the CCHB Group has established business relationships with these customers for several years as set out in Section 4.5 and provides niche (i.e. customised or value-added) products to these customers, there can be no assurance that these companies would continue to be the Group's major customers, or that the failure to maintain this business relationships or reduction in orders from the major customers would not affect the Group's operating results.

(g) Absence of Long Term Contractual Agreement with Major Customers and/or Suppliers

There is no long term contractual agreement between the CCHB Group and its major customers and/or suppliers. The Group seeks to limit this risk by employing various strategies to broaden its clientele base, which includes, inter alia, venturing into new markets through appointing more distributors and representatives.

Despite the absences of long-term contracts with its customers, the Group has an established and proven track record in terms of providing quality products and services, which has earned the Group the confidence and recognition of the various MNCs and overseas customers. The CCHB Group also ensures that their relationship with existing customers is continuously nurtured by providing related before and after sales technical services and product enhancements.

The Group enjoys cordial relationship and good support with its external raw material suppliers. It is not dependent on any single supplier for sourcing of raw materials as it is the Group's policy to have multiple sourcing.

The major raw materials utilised by the Group in the manufacturing of cables and connectors are shielded/unshielded copper cables and phosphor bronze metal. Prices of shielded/unshielded cables and phosphor bronze may fluctuate. However, such fluctuation will also affect the Group's other competitors and will not impart a significant economic disadvantage to the Group. Nonetheless, no assurance can be given that any significant changes to the supply and prices of raw materials will not affect the Group's financial performance.

3. RISK FACTORS (Cont'd)

(h) Dependence on Protection of Intellectual Property

The Group also relies on trade secrets, patents and proprietary know-how to protect the concepts, ideas and documentation relating to its proprietary technology. However, there can be no assurance that the Group will be able to protect its proprietary rights against unauthorised third party copying, use or exploitation, any of which could have a material adverse effect on the Group's business, operating results and financial condition. This risk of business loss arising from the above is mitigated by various factors as summarised as follows: -

- CCHB is a member of SATA Standardisation Committee for the Cable and Connector Group (refer to Section 4.2.13 (iv)). Participation in such industry standardisation committee exposes the Group to the next generation technology and allows greater access to market information and developments;
- As the provider of value-added and custom products, the Group's R&D team regularly communicates and is involved in various discussions and consultations with the Group's customers. These include customers that are involved in cutting edge technology industries such as HNS (broadband satellite telecommunication industry) and Seagate Technology, LLC, USA (storage device industry). As such, this enables the Group to obtain first hand information on the latest technological developments and updates in the respective industry; and
- provision of integrated logistics support, including hub-services such as warehousing, auto-replenishment program, Electronic Data Interchange ("EDI") and product kitting.

The above said factors combined act as a powerful marketing tool for the Group and increases the Group's competitive edge.

As mentioned in Section 1.3 of this Prospectus, as at 31 August 2005 (being the latest practicable date prior to the printing of the Prospectus), the Group has filed for three patent applications under RCI for its SATA signal cable. The invention application was entitled "Electronic Connector for a Cable". Although the Group believes these patent applications contain patentable claims, there can be no assurance the patent approval will be issued.

The Group is not aware of any infringement by its product design and automation technology on the proprietary rights of others and has not received any notice of claimed infringement. However, the Group has not conducted any formal investigation as to possible infringement and there can be no assurance that third parties will not assert infringement claims against the Group in connection with its products, that any such assertion of infringement will not result in litigation, or that the Group will prevail in such litigation.

(i) Dependence on Patents and New Manufacturing Processes

The cables and connectors industry is highly competitive with over 1,200 manufacturers worldwide. Many of these connector companies have established manufacturing facilities in China for the cost savings. A major drawback in manufacturing an ISP product such as Ultra ATA and SATA cables and connectors is that it is an extremely price competitive market. Hence, for an ISP manufacturer to successfully compete in the market, the Company must have the capability to provide any of the following:-

- produce the product at low cost,
- provide some form of product improvement over other manufacturers, and/or
- provide outstanding quality.

3. RISK FACTORS (Cont'd)

The CCHB Group has invested significant amount of resources to develop ISPs with enhanced performance and reliability as evident in their design in Ultra ATA & SATA signal cable. The Group has submitted patent application for SATA signal cable design which is pending examination by the Patent Officer.

In an industry where semi-automation and hand-assembly techniques exist, the Group utilises a fully automated manufacturing process through its AutoTerm, Rotary connector and SATA cable machines (refer to Section 4.2.4). These machinery produce cables and connectors with consistent high quality electrical performance, precise termination repeatability with low production cost.

(i) Risk Relating to Technological Obsolescence

Certain of the Group's products are characterised by rapid technological developments, evolving industry standards, swift changes in customers' requirements, new product introductions and enhancements.

The Group minimises its exposure to the risk relating to technological obsolescence as follows:-

- The Group invests in projects that have long product life cycles, such as the SATA. According to the Overview of the World Connector Industry and SATA report dated 31 August 2005 prepared for inclusion in this Prospectus, by Bishop & Associates, Inc., a leading market research firm specialising in the global electronic connector industry, the Serial ATA is an industry shift that is expected to have a life of at least 10 years;
- The Group maintains a highly diversified product application by focusing its main resources onto interconnect solutions/standards that apply to a wide range of end-use applications. For instance, the custom power cord is used on a variety of satellite-based end-user products such as digital satellite receivers/recorders, broadband network products and data telephone trunking systems; and
- The provision of value-added and custom products as mentioned in Section 4.2.13(iv) involves various discussions and consultations with the Group's customers. This enables the Group to obtain first hand information on the latest technological developments and updates in the respective industry.

CCHB Group, under RCI, is a member of the SATA Standardisation Committee for the Cable and Connector Group (refer to Section 4.2.13(iv)). This exposes the Group to the next generation technology and allows greater access to market trends and developments.

The CCHB Group will continue to enhance its total engineering solution services, improve its service levels and maintain its competitiveness including broadening its products range and to develop a more diversified portfolio of customers and markets in the future, both locally and overseas, to lessen its dependency on the major customers and industry.

Among the strategies taken include enhancing of B2B marketing and distribution channels. The Group propose to further develop their web-based strategies as mentioned in Section 4.2.17 and to set up sales and distribution network in Europe in order to expand its global presence.

(k) Dependence on Key Personnel

The success of the CCHB Group could be attributed to the leadership and entrepreneurship of its experienced Directors and the key management as well as the Group's ability to attract, maintain and motivate highly skilled technical staffs. The Group expects to continue to retain the key management and technical personnel by offering competitive remuneration packages that include performance-related-pays and conducive work environment.

3. RISK FACTORS (Cont'd)

However, there can be no assurance that the Group can continue to retain the existing personnel or attract additional or replacement personnel with the requisite knowledge and skills for the Group's continued growth. Failure to retain the senior key management could materially adversely affect the Group's ability to compete effectively in the industry. Profiles of the Directors and key personnel are set out in Section 5.3.2 and Section 5.5.2. The Group seeks to mitigate this risk by entering into service agreements with the respective key personnel as mentioned in Section 5.9.

(l) Dependence on the Adopters Agreement

The Group has entered into the Adopters Agreement in 2002 with Serial ATA International Organisation (SATA-IO) which is a independent, non profit organization developed by and for leading industry companies such as Intel Corporation, Dell Computer Corporation, Quantum Corporation, APT Technologies Inc. Maxtor Corporation and Seagate Technology ("the Corporations"). SATA-IO provides the industry with guidance and support for implementing the SATA specification as well as further developing the Serial SATA Interface. Thus the Adopters Agreement relates to the usage of Serial ATA specification as adopted and published by the said companies.

The Group has established good relationship with the SATA-IO and believes that they are able to maintain such established relationship by adhering to the SATA-IO specifications and guidelines as stipulated in the Adopters Agreement. However, even if the Group has adhered to all the conditions of the Adopters Agreement it is not within the Group's control that the Adopters Agreement will not be terminated. It is provided in the Adopters Agreement that the patent licenses granted under the Adopters Agreement shall be unavailable in the event any Corporations or RCI or any affiliate thereof initiates any patent infringement action against:-

- (a) the Corporations or RCI or any of its affiliates ("the Granting Party"), or
- (b) any customers or distributors of the Granting Party, in relation to either (i) any of the Granting Party's compliant portions, or (ii) any of the Granting Party's products or services for which the Granting Party has a contractual indemnification obligation, upon the acceptance of a tender of such indemnification obligation.

Notwithstanding the above, the Group is confident that in the highly unlikely event of the Adopters Agreement being terminated, the Group will be able to continue manufacturing products adhering to the Serial ATA specifications as follow:

- as an Original Equipment Manufacturer
- development of customized SATA products that do not require the SATA logo because it will not be sold to the industry at large.

(m) Control by Promoters / substantial shareholders

After the Public Issue, the Promoters, as set out in Section 5.1 of this Prospectus will collectively control 59.08% of CCHB's enlarged issued and paid up capital before the exercise of ESOS. As a result, these Promoters will be able to exercise some extent of influence on the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law, covenants and/or by the relevant authorities.

(n) Competitive Risks

Cables and Connectors Segment

According to the Overview of the World Connector Industry and SATA report dated 31 August 2005, by Bishop & Associates, Inc. prepared for inclusion in this Prospectus, the interconnect industry has over 1,200 manufacturers worldwide, which can be classified into three (3) tiers as follows:-

- Tier One: Large, global companies with broad product lines and sales, marketing, manufacturing and engineering capabilities in all geographic regions of the world. These companies have connector sales in excess of USD500 million annually. Twelve (12) connector companies have annual sales above the USD500 million.

3. RISK FACTORS (Cont'd)

Tier Two: Medium size companies with two or three major product lines and sales of USD100 to USD500 million annually. These companies are typically large in one geographic region, with some sales in all regions. There are twenty-eight (28) companies in Tier Two.

Tier Three: Small manufacturers with one or two major product lines, and sales of less than USD100 million in one region of the world. There are over 1,000 connector companies in this group.

Smaller companies, such as those in Tier Three may, in accordance with their capabilities, embark on niche opportunities which require high level of engineering expertise, experience, and business focus, that constitute high barriers to entry.

While the Group currently falls under Tier Three, it differentiates itself from the other Tier Three companies by positioning itself as a niche player that provides total engineering solution for value-added and customised cables and connectors, and bundles its product mixes with high value customer service such as warehousing, customer logistic support and auto-replenishment program.

Nevertheless, no assurance can be given that the Tier One and Two companies will not venture into certain similar niche segments as the Group, which could materially adversely affect the Group's market share. To the best knowledge of the Directors of CCHB, these larger companies are not inclined to offer niche-engineering services to cater to specific requirements of a customer due to the small volumes involved.

The Group mitigates such threats through its focus in R&D (as mentioned in Section 4.2.13) and in-depth knowledge of its niche segments. However, no assurance can be given that CCHB Group can maintain their strength in their niche area so as to stay competitive against other niche companies.

Both the aforementioned patent and automated manufacturing processes allow the Group to level the playing field and compete effectively in the market. Unauthorised third party copying, use or exploitation, could have a material adverse effect on the Group's business, operating results and financial condition. Nevertheless, the Group positions itself mainly as a provider of niche total engineering solution services, where the focus is more on customised or valued-added products and services. ISPs provide a springboard to the Group to achieve brand awareness, immediate market acceptance, ensured market demand and more importantly as an opportunity to discover niche requirements of customers.

(o) Political and Economic Factors

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

(p) Disruption in Movement of Goods Due to Terrorist Acts, Union Strikes and the Spread of Diseases

Due to high movement of goods between Malaysia, the USA and China, the CCHB Group is exposed to risks arising from disruption in supply of raw materials and delivery of finished products due to the effects of terrorist acts or the spread of diseases that could lead to government authorities shutting down air, road and rail transportations. Furthermore, in highly unionised industries such as the Long Beach Port facilities in California, labour strikes may have similar effects on the timely supply of goods.

3. RISK FACTORS (Cont'd)

As these acts are beyond the Group's control, there is limited amount of risk mitigation activities that can be undertaken. However, such threats are usually felt across the industries. As the Group is not overly dependent on one supplier, raw materials may be procured from other local and overseas suppliers. The Group also engages in buffer stock arrangements with their customers for which the Group establishes warehousing space.

(q) Risk of Implementation of Asean Free Trade Area ("AFTA") / Common Effective Preferential Tariff ("CEPT")

Under the AFTA as initiated by the Association of South-East Asian Nations ("ASEAN"), a comprehensive programme of regional tariff reduction has been laid out. The CEPT has been proposed for goods traded within the ASEAN Region. The AFTA is not expected to have any material effect on the business of the Group as majority of the purchases is imported either directly or indirectly from countries which are not from ASEAN. However, any purchases from ASEAN countries are expected to benefit the Group as this will reduce the cost of purchases.

(r) Related Party Transactions/ Conflict of Interest

As disclosed in Section 8.1 of this Prospectus, there are certain related-party transactions involving the Directors and substantial shareholders and/or persons connected with the Directors or substantial shareholders of CCHB. The Directors and substantial shareholders of CCHB have given an undertaking that all business transactions between the Group and the Directors and substantial shareholders and their related persons, shall be based on arms length basis and on commercial terms that shall not be disadvantageous to the Group.

As disclosed in Section 8.4 of this Prospectus, some of the Promoters, Directors and/or substantial shareholders of CCHB have interests in a company carrying on similar businesses as the Group. To mitigate any potential conflict of interest, the Promoters, Directors and substantial shareholders have provided written undertakings not to be involved in any new business in the future, which will give, rise to competition/ conflict with the current business of the Group.

(s) Seasonality

Some of the Group's products, particularly those relating to the Information Technology ("IT") industry such as computers and computer peripherals, are subject to seasonal variations. These products include USB cables, ultra-miniature card edge connectors and static discharge shunt as set out in Section 4.2.3. Demand for these products tends to increase in the second half of the year as demand for IT and computer products normally increase by year end or during festive seasons such as Christmas.

In mitigating the seasonal sales cycle, the Group has expanded their products for other industries such as medical and telecommunication.

(t) System Disruption

The Group had not experienced any system disruption to its business for the twelve (12) months prior to the date of this Prospectus. Notwithstanding this, no assurance is given that a system disruption will not materially affect the Group's business. However, the Directors do not foresee any disruption of its operation which could materially affect the Group. To this end, the Group has a regular maintenance schedule for its equipment.

3. RISK FACTORS (Cont'd)

(u) Disclosure Regarding Forward-Looking Statements

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

(v) No Prior Market for CCHB's Shares

Prior to this Public Issue, there has been no public market for CCHB's shares. There can be no assurance that an active market for CCHB's shares will develop and continue to develop upon or subsequent to its listing on the MESDAQ Market of Bursa Securities or, if developed, that such a market will be sustained. The Issue Price of RM0.32 for the Public Issue shares has been determined after taking into consideration a number of factors, including but not limited to, the Company's financial and operating history and condition, its prospects and the prospects of the industry in which the Company operates, the management of the Company, the market prices for shares of companies engaged in business similar to that of the Company and the prevailing market conditions at the time the application for listing of CCHB was submitted to the SC. There can be no assurance that the Issue Price will correspond to the price at which CCHB's shares will trade on the MESDAQ Market of Bursa Securities upon or subsequent to its listing.

(w) Insurance Coverage on Assets

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

For the Group's operations, most assets such as inventory, office equipment and furniture and fitting are sufficiently insured under fire and other insurance policies. Further details on the insurance policies are set out in Section 16.5 of this Prospectus.

However, there are other uninsurable risks such as natural disaster, which may be beyond the insurance coverage. In the event that these risks occur, it will affect the operations of the Group.

(x) Failure/Delay In The Listing

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

- (i) The eligible directors, employees as well as business associates of the group fail to subscribe/acquire the public issue shares allocated to them;
- (ii) The underwriters of the public issue fail to honour their obligations under the underwriting agreement;
- (iii) The selected investors under the private placement fail to subscribe/acquire the public issue shares allocated to them; and
- (iv) CCHB is unable to meet the public spread requirements i.e. At least 25% but not more than 49% of the issued and paid-up capital of CCHB must be held by a minimum of 200 public shareholders at the time of the group's admission to the official list of the Mesdaq market of bursa securities.