4.0 INFORMATION ON THE LNG GROUP *(Cont'd)*

(c) Skilled Human Resource

The LNG Group is supported by a team of technically competent personnel and is headed by an experienced senior technical management team who have been working together since the inception of EPI. As at 16 June 2003, about 64% of the LNG Group's employees are skilled workers.

(d) Stringent Quality and Production Control

Quality is one of the key success factors of the LNG Group. The management of the LNG Group is committed to maintaining high quality products. Strict quality and production controls procedures are enforced where products are checked and measured at every stage of production by experienced quality controllers using high technology quality control instruments such as 100x profile projector, high performance measuring scope, hardness tester equipment, surface roughness tester equipment and non-contact coordinated measuring machine. As a testimony of the emphasis on quality management, EPI and AMT are accredited with ISO9002 certification by SGS-Yarsley of the United Kingdom during year 2000.

The LNG Group has earned the trust of its customers for delivering high quality products and reliable services over the years. This is evident from the fact that most of the MNC customers retained their support since commencement of their business relationships with the LNG Group.

(e) Close Working Relationship with MNCs

The Directors of the LNG Group believe in having close working relationships with its major MNC customers. This consultative rapport allows the LNG Group to work in tandem with their requirements, develop ways to reduce costs and wastage by improving production processes and design innovations. The continuous orders obtained from its MNC customers through the years is a testimony to the strong working relationship with and mutual business support from its customers.

(f) Continuous R&D Emphasis

The LNG Group is committed to continuous R&D in order to remain competitive. The main thrust of the core R&D programme is to strive on forward integration with the LNG Group's current operations such as high speed precision stamping. The Directors of the LNG Group believe that growth through technical breakthrough is vital in maintaining its competitive edge in this industry. The R&D team is also constantly looking into innovative designs for moulds, tools, dies, jigs and fixtures to improve productivity and reduce wastage.

4.3 Subsidiaries

4.3.1 Information on EPI

(a) History and Business

EPI was incorporated in Malaysia under the Act as a private limited company on 18 July 1994 under the name of Galant Engineering Sdn Bhd and assumed its present name on 10 February 1995.

The company is principally engaged in the design and manufacturing of high precision moulds, tools and dies.

(b) Share Capital

The present authorised and issued and paid-up share capital of EPI are as follows:

	RM
Authorised	
Ordinary shares of RM1.00 each	1,000,000
Issued and paid-up	
Ordinary shares of RM1.00 each	594,878

(c) Changes in Share Capital

The changes in the paid-up share capital of EPI since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Total paid-up share capital RM
18.07.1994	2	Subscribers' shares	2
09.06.1995	91,998	Cash	92,000
06.11.1996	158,000	Bonus issue of approximately 1.7174 new ordinary shares for each existing ordinary share held	250,000
31.10.2000	202,200	Bonus issue of approximately 0.809 new ordinary share for each existing ordinary share held	452,200
18.11.2000	100,000	Issuance of shares as consideration for acquisition of AMT	552,200
08.08.2002	42,678	Cash	594,878

4.0 INFORMATION ON THE LNG GROUP *(Cont'd)*

(d) Substantial Shareholder

EPI is a wholly-owned subsidiary of LNG.

(e) Profit and Dividend Record

The audited profit and dividend record of EPI for the past five (5) financial years ended 31 December 1998 to 2002 are summarised as follows:

	< ----------Years ended 31 December---------- >				
	1998 RM'000	**1999 RM'000**	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**
Revenue	5,579	6,297	5,825	5,700	6,510
EBITDA	3,521	3,847	2,704	2,490	4,916
Interest expense	(193)	(175)	(282)	(217)	(195)
Interest income	-	25	16	3	51
Depreciation	(799)	(926)	(1,007)	(1,174)	(990)
Profit before exceptional items	2,529	2,771	1,431	1,102	3,782
Exceptional items	(40)	58	(28)	(79)	(101)
PBT	2,489	2,829	1,403	1,023	3,681
Taxation	(237)	2	(120)	(95)	(926)
PAT	2,252	2,831	1,283	928	2,755
Weighted average no. of ordinary shares of RM1.00 each in issue ('000)	250	250	296	552	569
Gross EPS (RM)	9.96	11.32	4.74	1.85	6.47
Net EPS (RM)	9.01	11.32	4.33	1.68	4.84
Net dividend rate (%)	400.00	440.00	90.55	452.73	226.37

(f) Subsidiary and associated company

EPI does not have any subsidiary or associated company as at 16 June 2003.

(g) Outstanding option or convertible securities

As at the date of this Prospectus, EPI does not have any outstanding option or convertible securities.

4.3.2 Information on AMT

(a) History and Business

AMT was incorporated in Malaysia under the Act as a private limited company on 21 November 1998.

The company is principally engaged in the manufacturing of high precision moulds, tools and dies.

(b) Share Capital

The present authorised and issued and paid-up share capital of AMT are as follows:

	RM
Authorised	
Ordinary shares of RM1.00 each	100,000
Issued and paid-up	
Ordinary shares of RM1.00 each	100,000

(c) Changes in Share Capital

The changes in the paid-up share capital of AMT since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Total paid-up share capital RM
21.11.1998	2	Subscribers' shares	2
13.09.1999	99,998	Cash	100,000

(d) Substantial Shareholder

AMT is a wholly-owned subsidiary of LNG.

(e) Profit and Dividend Record

The audited profit and dividend record of AMT for the past three (3) financial period/years ended 31 December 1999 to 2002 are summarised as follows:

	From 21 Nov 1998 to 31 Dec 1999 RM'000	Years ended 31 December 2000 RM'000	2001 RM'000	2002 RM'000
Revenue	686	2,267	2,787	1,910
EBITDA	485	1,233	1,630	822
Depreciation	(33)	(33)	(33)	(59)
Interest expense	-	-	-	(4)
Interest income	-	13	41	33
PBT	452	1,213	1,638	792
Taxation	(18)	(108)	(149)	(85)
PAT	434	1,105	1,489	707
Weighted average no. of ordinary shares of RM1.00 each in issue ('000)	27	100	100	100
Gross EPS (RM)	16.74	12.13	16.38	7.92
Net EPS (RM)	16.07	11.05	14.89	7.07
Net dividend rate (%)	-	-	380	-

(f) Subsidiary and associated company

AMT does not have any subsidiary or associated company as at 16 June 2003.

(g) Outstanding option or convertible securities

As at the date of this Prospectus, AMT does not have any outstanding option or convertible securities.

4.0 INFORMATION ON THE LNG GROUP *(Cont'd)*

4.3.3 Information on GCP

(a) History and Business

GCP was incorporated in Malaysia under the Act as a private limited company on 10 July 1999.

The company is principally engaged in the manufacturing of precision engineering plastic injection moulding.

(b) Share Capital

The present authorised and issued and paid-up share capital of GCP are as follows:

	RM
Authorised	
Ordinary shares of RM1.00 each	1,000,000
Issued and paid-up	
Ordinary shares of RM1.00 each	1,000,000

(c) Changes in Share Capital

The changes in the paid-up share capital of GCP since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Total paid-up share capital RM
10.07.1999	2	Subscribers' shares	2
30.09.1999	999,998	Cash	1,000,000

(d) Substantial Shareholder

GCP is a wholly-owned subsidiary of LNG.

4.0 INFORMATION ON THE LNG GROUP *(Cont'd)*

(e) Profit and Dividend Record

The audited profit and dividend record of GCP for the past four (4) financial period/years ended 31 December 1999 to 2002 are summarised as follows:

	From 10 Jul 1999 to 31 Dec	Years ended 31 December		
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	78	3,598	3,283	5,809
EBITDA	(97)	1,729	1,161	1,706
Depreciation	(72)	(423)	(659)	(1,113)
Interest expense	-	(6)	(24)	(70)
(Loss) / PBT	(169)	1,300	478	523
Taxation	-	(312)	(76)	(36)
(Loss) / PAT	(169)	988	402	487
Weighted average no. of ordinary shares of RM1.00 each in issue ('000)	531	1,000	1,000	1,000
Gross (loss) / EPS (RM)	(0.32)	1.30	0.48	0.52
Net (loss) / EPS (RM)	(0.32)	0.99	0.40	0.49
Net dividend rate (%)	-	-	63.36	-

(f) Subsidiary and associated company

GCP does not have any subsidiary or associated company as at 16 June 2003.

(g) Outstanding option or convertible securities

As at the date of this Prospectus, GCP does not have any outstanding option or convertible securities.

4.3.4 Information on VPI

(a) History and Business

VPI was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 17 August 1989 under the name of Plymax Industries (M) Sdn Bhd and assumed its present name on 12 September 1995.

The company is principally engaged in property investment holding.

4.0 INFORMATION ON THE LNG GROUP *(Cont'd)*

(b) Share Capital

The present authorised and issued and paid-up share capital of VPI are as follows:

	RM
Authorised	
Ordinary shares of RM1.00 each	1,000,000
Issued and paid-up	
Ordinary shares of RM1.00 each	400,000

(c) Changes in Share Capital

The changes in the paid-up share capital of VPI since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Total paid-up share capital RM
17.08.1989	2	Subscribers' shares	2
11.09.1989	49,998	Cash	50,000
02.04.1994	50,000	Cash	100,000
29.09.1995	300,000	Cash	400,000

(d) Substantial Shareholder

VPI is a wholly-owned subsidiary of LNG.

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(e) Profit and Dividend Record

The audited profit and dividend record of VPI for the past five (5) financial years ended 31 December 1998 to 2002 are summarised as follows:

	< ----------Years ended 31 December---------- >				
	1998 RM'000	**1999 RM'000**	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**
Revenue	84	92	132	139	104
EBITDA	74	(81)	105	115	76
Interest expense	(45)	-	-	-	(18)
Depreciation	(42)	(37)	(37)	(35)	(35)
(Loss) / PBT	(13)	(118)	68	80	23
Taxation	-	4	-	(24)	(7)
(Loss) / PAT	(13)	(114)	68	56	16
No. of ordinary shares of RM1.00 each in issue ('000)	400	400	400	400	400
Gross EPS/ (loss) (RM)	(0.03)	(0.29)	0.17	0.20	0.06
Net EPS/ (loss) (RM)	(0.03)	(0.28)	0.17	0.14	0.04
Net dividend rate (%)	-	-	-	-	-

(f) Subsidiary and associated company

VPI does not have any subsidiary or associated company as at 16 June 2003.

(g) Outstanding option or convertible securities

As at the date of this Prospectus, VPI does not have any outstanding option or convertible securities.

4.3.5 Information on FFI

(a) History and Business

FFI was incorporated in Malaysia under the Act as a private limited company on 20 December 1988 under the name of Pengangkutan Yap Theng & Anak (M) Sdn Bhd and assumed its present name on 14 November 1989.

The company is principally engaged in property investment holding.

4.0 INFORMATION ON THE LNG GROUP *(Cont'd)*

(b) Share Capital

The present authorised and issued and paid-up share capital of FFI are as follows:

	RM
Authorised	
Ordinary shares of RM1.00 each	100,000
Issued and paid-up	
Ordinary shares of RM1.00 each	30,000

(c) Changes in Share Capital

The changes in the paid-up share capital of FFI since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Total paid-up share capital RM
20.12.1988	2	Subscribers' shares	2
05.03.1991	29,998	Cash	30,000

(d) Substantial Shareholder

FFI is a wholly-owned subsidiary of LNG.

(e) Profit and Dividend Record

The audited profit and dividend record of FFI for the past five (5) financial years ended 31 December 1998 to 2002 is summarised as follows:

	< ----------Years ended 31 December---------- >				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	108	108	10	77	132
EBITDA	95	99	(23)	49	78
Interest expense	(26)	(4)	-	-	(18)
Depreciation	(26)	(35)	(23)	(52)	(71)
PBT / (Loss)	43	60	(46)	(3)	(11)
Taxation	(3)	(26)	(16)	(13)	(4)
PAT / (Loss)	40	34	(62)	(16)	(15)
No. of ordinary shares of RM1.00 each in issue ('000)	30	30	30	30	30

	< ----------Years ended 31 December---------- >				
	1998 RM'000	**1999 RM'000**	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**
Gross EPS / (loss) (RM)	1.43	2.00	(1.53)	(0.10)	(0.37)
Net EPS / (loss) (RM)	1.33	1.13	(2.07)	(0.53)	(0.50)
Net dividend rate (%)	-	-	-	-	-

(f) Subsidiary and associated company

FFI does not have any subsidiary or associated company as at 16 June 2003.

(g) Outstanding option or convertible securities

As at the date of this Prospectus, FFI does not have any outstanding option or convertible securities.

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4.4 Industry Overview

4.4.1 The Malaysian Economy

The Malaysian economy entered 2002 on a stronger footing, after recovering from a downturn experienced in the last two (2) quarters of 2001. The economy was envisaged to register stronger growth in 2002, following better export performance and continued pick-up in domestic demand. Brighter external prospects due to the economic recovery of the United States ("US") and a rebound in global electronics demand, especially from the East Asian countries, have hastened Malaysia's export recovery, beginning early 2002. Export has somewhat broadened beyond the electronics sector, aided by the softening of the US dollar ("USD") against regional currencies to which the Ringgit is pegged.

Nonetheless, the earlier-than-expected recovery of the global economy became fragile and vulnerable towards the middle of the year, precipitated by revelations of corporate and accounting malpractices in the US, which slumped the equities market and deteriorated investor confidence. Compounded by lower corporate earnings, the widening current account deficit and depreciating USD, global recovery moderated somewhat.

The immediate and major challenge for 2003 is sustaining growth and strengthening macroeconomic fundamentals, post-September 11. The fragile and vulnerable global recovery necessitated a mildly expansionary fiscal stance in order to ensure the growth momentum is sustained.

The momentum of growth in the Malaysian economy was sustained in the fourth quarter of 2002, with real Gross Domestic Product ("GDP") posting growth of 5.6%. The pick-up in growth in the second-half year led to real GDP expanding by 4.2% for the year 2002 as a whole. During the year, the main impetus to growth came from domestic demand, reinforced by favourable export performance and the strong underlying fundamentals of the economy.

Growth in the fourth quarter of 2002 was broad based and characterised by growth in all sectors of the economy. For the fourth quarter of 2002, growth in the services sector strengthened to 4.9% with improved performances experienced in most sub-sectors, namely, utilities sub-sector, wholesale and retail trade, hotels and restaurants sub-sector, transport, storage and communication sub-sector and supported by activity in the banking and insurance sub-sectors. In the face of continued expansion in external demand (9.2%; 3Q: 11.2%) and the moderation in the performance of the domestic-oriented industries (0.9%; 3Q: 1.5%), value-added in the manufacturing sector expanded by 5.8% in the fourth quarter (3Q: 7.3%). Activity in the construction sector was slower at 0.5% in the fourth quarter (3Q: 2.6%), while value added growth in the mining sector strengthened to 9.5% on account of higher production of both crude oil and natural gas amidst favourable global prices. Value added growth in the agriculture sector remained in expansionary mode and rose by 2.5% in the fourth quarter of 2002 despite the sharply slower increase in crude palm oil production.

Inflation, as measured by the Consumer Price Index ("CPI") was lower at 1.8% (2.1% in the third quarter). The softening in the CPI was accounted mainly by the effect of the one-off price adjustments on retail petrol prices and sales tax on tobacco products, which were implemented at end-October 2001.

Exports continued to expand in the fourth quarter, registering a strong annual growth of 9.6%. Exports of manufactured products increased by 5.1%, with strong growth recorded in semiconductors, chemical products , wood products and household electrical appliances. Growth in agriculture and mining exports accelerated by 48.7% and 30.4%, respectively, reflecting mainly the significant terms of trade improvements for all major commodity exports and volume increases. Further, inflows of foreign direct investment were higher during the fourth quarter of 2002, with gross inflows amounting to RM3.9 billion into a broad group of industries, in particular the oil and gas sectors and manufacturing sectors as well as the services sector for new investments and acquisitions.

For 2002 as a whole, the net international reserves increased by RM14.3 billion or USD3.8 billion, after taking into account a total net exchange revaluation gain of RM6.6 billion or USD1.7 billion for the year. As at 14 February 2003, the outstanding net international reserves of RM131 billion or USD34.5 billion remained useable and unencumbered. This reserves position is adequate to finance 5.3 months of retained imports and is 4.3 times the short-term external debt.

Despite greater uncertainties in the global environment, the growth prospects for Malaysia remain positive. While growth will continue to depend on the performance of the global economy, it will benefit from sustained domestic demand and the expansion in intra-regional trade. Growth in 2003 is expected to be supported by a modest world economic growth, some pick-up in the global electronics industry, firm commodity export prices and stronger expansion in intra-regional trade.

(Source: Economic Report 2002 / 2003, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2002, Bank Negara Malaysia, 28 February 2003)

4.4.2 The Manufacturing Industry

Signs of a turnaround in the manufacturing sector have become more visible in the second quarter of 2002. After experiencing 11 months of consecutive decline, output of the manufacturing sector has improved from -11% recorded in the fourth quarter of 2001 to bounce back with three (3) straight months of positive growth since April 2002. A steady recovery of the sector is anticipated for the rest of the year, on account of a revival in external demand and sustained growth in domestic consumption.

For the fourth quarter of 2002, value added in the manufacturing sector expanded by 5.8% with growth supported by continued expansion in the export oriented industries (9.2%; 3Q: 11.2%), while the performance of the domestic-oriented industries moderated (0.9%; 3Q: 1.5%). In the export-oriented industries, production of chemicals and chemical products was stronger at 13.1%, while output growth in the electronics industry moderated, but remained strong.

There was a sharp turnaround in the domestic electrical and electronics industry. Following protracted inventory liquidation in semiconductors in 2001, orders began to pick up largely due to replenishment of stocks in the first half of 2002. Growth of semiconductor exports of 36.2% during the fourth quarter of 2002 was sustained by strong demand from the East Asian market (excluding Japan).

The moderation in output growth of the domestic-oriented industries was due largely to lower output in the transport equipment, fabricated metal and petroleum products industries. The transport equipment industry was affected by moderation in demand for passenger cars towards the end of the year. However, stronger expansion was recorded in the iron and steel products, food and paper products industries. The overall capacity utilisation rate in the manufacturing sector remained high at 82% (3Q: 84%), with export- and domestic-oriented industries operating at 84% and 80%, respectively.

Output growth in the manufacturing sector remained favourable for 2002. Meanwhile, external developments and domestic factors point to stronger recovery of the manufacturing sector in 2003. Growth of the electronics industry, the main driver of the manufacturing sector, is envisaged to gain strength. The Semiconductor Industry Association, US forecasts that semiconductor sales are likely to accelerate and grow by 23.2% in 2003, led by strong growth in the Asia-Pacific region, a reflection of stronger intra-Asian trade in electronics and domestic demand growth within Asia. Given that the strong growth of semiconductor output would also spill over to the supporting industries such as plastic, chemicals and fabricated metals and machinery, a stronger upswing in the overall manufacturing sector is envisaged. The overall value added of the manufacturing sector is expected to register a stronger growth of 8.5% in 2003 (2002: 5.1%).

(Source: Economic Report 2002 / 2003, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2002, Bank Negara Malaysia, 28 February 2003)

4.4.3 Mould and Die Industry

Malaysia's mould and die industry is today recognised as the leading engineering supporting industry in the country. Moulds and dies form the basic tools used in the manufacture of metal, plastics, ceramics, glasses and rubber products.

Over the last three (3) decades, the mould and die industry has experienced rapid growth in tandem with the overall growth of the manufacturing sector. The increasing incorporation of locally manufactured parts and components has significantly fuelled the demand of moulds and dies. There are currently over 250 operating companies, employing some 14,000 workers, of which 7,000 are in the skilled and professional categories. The country's mould and die industry has the capability to manufacture most types of moulds, dies, and tooling to complement the needs of the manufacturing sector.

40% of the mould and die industry operators serve the electrical and electronics (including semiconductor) industries while 27% and 15% serve the plastic industry and metal working industry respectively. These manufacturers are mainly concentrated in Selangor, Penang and Johor to support the electrical and electronics and plastic injection moulding industries, which are located in these states. The accelerated development of the electrical and electronics industry, in particular, has facilitated the inflow of state-of-the art technology in mould and die manufacturing techniques.

Imports of moulds and dies amounted to RM1.1 billion in 2001 and RM954.7 million in 2002 (January – November). Imports were mainly from Japan, Taiwan, Germany, Singapore and Hong Kong and represented high precision and complex tooling for the electrical and electronics industry, and large moulds and dies used in the manufacture of components and parts for the automotive industry, for which the local industry still lacks adequate technology.

In 2002, 28 applications (RM281.3 million) were received for the mould, tool and die sub-sector. These comprised 23 new projects (RM127.3 million) and 5 expansion/diversification projects (RM154 million). Most of these applications were for the manufacture of high precision and large moulds and dies which are currently imported. This will lead to the further development of the local mould and die industry and help to reduce the dependence on imports. 12 of these applications (RM39.9 million) were Malaysian-owned projects. The Malaysian-owned projects were mainly small and medium scale projects. 7 projects (RM30.5 million) were for the manufacture of plastic injection moulds catering to the automotive and electrical and electronics industries. 5 projects (RM9.4 million) were for the manufacture of stamping moulds and dies for the electrical and electronics industry.

(Source: MIDA)

4.4.4 Plastic Injection Moulding Industry

In the mid 1980s, the efforts of the Malaysian Government to lure foreign investment had successfully attracted an influx of investment in the electrical and electronics industry, mainly by MNCs from Japan and United States.

The rapid development of the electrical and electronics industry had created ample business opportunities for the local plastics injection moulders, which were mainly producing household plastic items but have shifted to precision custom moulding by supplying parts and components for electrical appliances to the MNCs. The growth of the electrical and electronics industry from the mid 1980s to mid 1990s was phenomenal, averaging 25 percent a year.

The second phase of development of the electrical and electronics industry began in the mid 1990s with a shift from semi-precision to high precision parts as a result of the rapid development in new technologies, machines and engineering plastics to produce high precision parts replacing metals. The economic crisis in 1997/98 had affected the growth of the sector but it rebounded strongly in 1999 and 2000 when the regional economies turned around. In average, it managed to achieve a growth rate of 15 percent during the 1990s.

The injection moulding industry has developed into the advanced stage, in terms of products and technology. The end products are becoming more advanced and sophisticated and this is similar for the plastic parts and components. These products require more sophisticated production technology to achieve higher precision, better aesthetic features, better quality and more stringent performance requirement. The number of high precision moulders in this country is still small but is increasing.

At least 50 percent of the moulds used in the country still have to be imported. However, the local mould makers are on the right move by upgrading themselves with the use of advanced machines and facilities such as computer numerical control (CNC), electrode discharge machining (EDM), computer-aided design (CAD) and computer-aided manufacturing (CAM) software and hardware. The local mould makers are expected to produce more quality moulds in the future and the imported moulds would be reduced.

The opportunities for future growth are in many areas. Advancement in new technologies and machines enable new plastic products to be produced. New engineering plastics are developed every year for better quality, stronger performance and wider applications. To achieve better competitive edge, injection moulders would be focusing on niche market and developing their own brand names. The export market is unlimited for the forward-looking entrepreneur.

The plastics industry registered a total turnover of RM8.45 billion in 2001, a marginal increase of 0.5% compared to 2000, contributing to about 2.5% of the country's GDP. The moderate performance of the plastics industry was mainly due to the worldwide downturn of the electrical and electronics sector, which resulted in a 20% decline for plastic parts and components from this sector. Nevertheless, strong performance of the domestic-oriented sub-sectors assisted in off-setting the effects of the slowdown of the electrical and electronics sector. In 2002, the plastic industry registered a growth of 5% with a total turnover of RM8.8 billion.

(Source: MPMA)

4.4.5 Industry Players and Competition

Save as disclosed below, to the best of the Directors' knowledge and belief, there is no sizeable locally-owned company with integrated operations, which is in direct competition with LNG Group in the high precision engineering industry in Malaysia:

- Kumpulan H&L High Tech Bhd
- Kobay Technology Berhad
- Towam Sdn Bhd
- Juken Technology Sdn Bhd
- Muar Tools Manufacturer Sdn Bhd

4.4.6 Government Legislation, Policies and Incentives

Taking cognisance of the importance of strong supporting manufacturing-related services, the Malaysian Government will undertake a study to analyse and upgrade the capabilities of the existing engineering services sector such as machining, mould and die, metal stamping, metal fabrication, heat treatment and rapid tooling as well as identify new manufacturing and non-manufacturing support services required for the development of high-technology industries.

The establishment of the Rasa Machinery and Equipment Technology Centre in Selangor will provide the support for the development of the foundry technology as well as tooling and machining technologies. A training centre for CNC machines for machine tooling will also be set up to provide hands-on training for entrepreneurs to produce machine components and spare parts.

To promote investments in high value-added industries, the Government has further extended the waiver of the equity policy as well as the export condition that allow companies to sell up to 100% of their products in the domestic market. In line with the waiver of equity policy in the manufacturing sector until 31 December 2003, new manufacturing projects applying for manufacturing licence with or without tax incentives will not be subject to any equity or export conditions.

The Government will also identify improvements to existing incentives as well as introduce more focused incentives to strengthen industrialization in the country, taking cognizance of the importance of high-tech and capital intensive investments to provide significant spin-offs to the economy. Efforts will also be undertaken to attract foreign direct investment through industry specific promotions and informing companies of investment opportunities in priority areas.

To facilitate private sector involvement in R & D and technology development, the Government will continue to provide fiscal and financial incentives as well as appropriate infrastructure facilities. Towards this end, the allocation for the Industrial Research and Development Grant Scheme will be increased to RM200 million, while the Commercialisation of Research and Development Fund and Technology Acquisition Fund will be continued with an allocation of RM110 million and RM250 million respectively.

(Source: Eighth Malaysia Plan 2001 – 2005, MIDA)

Some of the tax incentives available to the mould and die industry in Malaysia include:

- ***Pioneer Status***

  Companies manufacturing moulds and dies are qualified to apply for pioneer status and, if granted, are given a tax exemption of 70% of statutory income for five (5) consecutive years with the balance of 30% of the statutory income taxable at prevailing corporate tax rate.

- ***Reinvestment Allowance***

  The Reinvestment Allowance is given to manufacturing and agricultural companies, (producing essential food and other activities approved by the Minister of Finance) which are undertaking expansion, modernisation, diversification and automation activities. Manufacturing companies in the western corridor of Peninsular Malaysia are given Reinvestment Allowance of 60% in respect of their qualifying capital expenditure for fifteen (15) consecutive years. Generally, such allowance can be utilised to set off against up to 70% of statutory income in a year of assessment and the balance of the statutory income will be taxed at the prevailing corporate tax rate.

However, companies that carry out reinvestment that can improve their productivity level significantly is allowed to utilise such allowance to set off against up to 100% of statutory income in a year of assessment.

- ***Double deductions for R&D***

  Double deductions are granted for non-capital expenditure incurred on R&D approved by the Inland Revenue Board.

4.4.7 Demand and Supply

The demand and supply for the Group's products and services is expected to be driven by the following key factors:

- increased outsourcing activities by MNCs as they concentrate on marketing and distribution, product design and development and critical manufacturing activities;
- changing production trend such as international procurement or global supply chain management;
- shorter product life cycle and higher frequency of new products being introduced to the market;
- wide application of the Group's products in several industries, including telecommunication, semiconductor and electrical and electronics sectors; and
- efforts taken by the Government in:
  - providing support for the development of infrastructure facilities for industries to promote productivity growth and ensuring that Malaysia continues to offer cost-competitive and viable location to both foreign and domestic investors;
  - analysing and upgrading of capabilities of the engineering services sector such as machining, mould and die, metal stamping, metal fabrication, heat treatment and rapid tooling as well as identifying new manufacturing and non-manufacturing support services required for development of high-technology industries; and
  - implementing measures that are expected to improve the overall business environment.

4.4.8 Substitute Products

Moulds and dies are basic tools used in the manufacture of metal, plastic, ceramic, glasses and rubber products. The mould and die industry is an essential supporting industry to a wide spectrum of the manufacturing sector as without such tools, the manufacturing industry would not be able to produce the intermediary and end consumer products. With the trend of electronic products and semiconductor components moving towards increasing miniaturization, it is inadvertent that the manufacturing industry relies on the high precision engineering industry to fabricate the required moulds, dies and tooling required. To the best of the Directors' knowledge and belief, there is currently no direct substitute for the Group's products in terms of cost, functionality, durability and degree of precision. Hence, the Directors reasonably believe there will be demand in the foreseeable future for the Group's products and services in the precision engineering industry.

4.4.9 Industry's Reliance on Imports

In the year 2000, the local market demand for moulds and dies was estimated at RM2.2 billion, of which about 60%-65% were imports mainly from Japan, Taiwan, Germany, Singapore and Hong Kong. In year 2001, local market demand for moulds and dies was estimated at RM1.96 billion. Over the past five (5) years, the import of moulds and dies are as follows:

	1998 RM'million	1999 RM'million	2000 RM'million	2001 RM'million	*2002 RM'million
Import	1,000.5	995.8	1,411.2	1,179.7	954.7

* *January - November*

(Source: MIDA)

4.4.10 Prospects and Outlook

A more promising global outlook is expected in 2003, with projections for growth in most regions to be more certain and stronger while unemployment, lower. World trade is envisaged to expand by 6.6% (2002: 2.5%), driving world growth to achieve 3.7% (2002: 2.8%). Downside risks to the generally optimistic outlook for 2003 will emanate mainly from the Middle East tensions. Notwithstanding the downside risks, world growth is envisaged to be on track, with the major economies, United States, Japan and the euro area expected to perform better, and global electronics demand rebounding.

The Malaysian economy is envisaged to strengthen in 2003, led by further improvements in both external and domestic demand. On the supply side, all sectors of the economy are expected to register positive growth rates. The anticipated growth in the global economy and world electronics demand will contribute to a more robust and broad-based growth in the manufacturing sector. Overall, real GDP growth is expected to accelerate to 6% - 6.5% in 2003. With these encouraging economic prospects, gross national products per capita is projected to rise further by 5.5% to RM14,098 or USD3,710 (2002: RM13,361, USD3,516), while income in terms of purchasing power parity will also increase by 5.4% to USD8,873 (2002: 3.3%, USD8,418).

With overall economic activities anticipated to gain momentum in 2003, driven by a more entrenched world economic recovery as well as a firm and positive role of the private sector in generating growth, domestic demand in real terms is expected to continue to increase strongly by 7.3% (2002: 4.8%). Private sector expenditure is envisaged to lead domestic economic activities by contributing significantly as much as 5.4 percentage points to GDP growth (2002: 3 percentage points).

External developments and domestic factors point to stronger recovery of the manufacturing sector. Growth of the electronics industry, the main driver of the manufacturing sector, is envisaged to gain strength. The Semiconductor Industry Association forecasts that semiconductor sales are likely to accelerate and grow by 23.2% in 2003, led by strong growth in the Asia-Pacific region, a reflection of stronger intra-Asian trade in electronics and domestic growth within Asia. In addition, the increased out-sourcing activities by semiconductor producers in United States and the EU to contract manufacturers in the Asia pacific region is projected to continue, and Malaysia is expected to benefit from this trend. Given that the strong growth of semiconductor output would also spill over to the supporting industries such as plastics, chemicals and fabricated metals and machinery, a stronger upswing in the overall manufacturing sector is envisaged.

Growth in domestic-oriented industries is also expected to pick up. This is on account of robust income effect from higher export earnings as well as positive wealth effect given that the stock market is anticipated to trend up in 2003. The overall value added of the manufacturing sector is expected to register a stronger growth of 8.5% in 2003 (2002: 5.1%).

(Source: Economic Report 2002 / 2003)

With the scheduled liberalisation of trade in goods and services under the World Trade Organisation as well as the commitments to tariffs reductions under bilateral and regional trade arrangements, intra-ASEAN trade is expected to increase and Malaysian exports are anticipated to penetrate a wider range of markets.

During the Eighth Plan period, the growth prospects for the electrical and electronic products industry is anticipated to be favourable. The electrical and electronic products subsector in the country is shifting into higher value-added activities through skills upgrading, product design and R & D. In the semiconductor product group, several companies will be upgrading and producing integrated circuits that require high technology. Similarly, in the consumer electronics group, more advanced products will be manufactured such as thin film transistor-liquid crystal display for television, personal computer monitors and handphones.

(Source: Eighth Malaysia Plan 2001 - 2005)

The high value of import of moulds and dies at RM1,179.66 million in 2001 shows that market potential for moulds and dies remains to be tapped, especially in the area of high precision complex moulds and dies and large moulds and dies (exceeding 2 tonnes in weight) used in the manufacture of components and parts for the electrical and electronics and automotive industries. With the expected future growth of these industries, local demand for moulds and dies is expected to expand further. Opportunities for export of moulds and dies to the region abound as the demand for these key products is expected to expand steadily in East Asia backed by rapid economic growth in the ASEAN region. The scope for the further development of the mould & die industry in Malaysia remains bright considering the almost consistent annual increase in demand for moulds & dies.

(Source: MIDA)

The better prospects for the manufacturing sector, in particular the electrical and electronics products industry, will benefit the LNG Group. The Directors of LNG are of the view that the Group will be able to capitalise on the shift towards higher technology manufacturing and higher value-added activities as it has the necessary operational experience and capabilities.

4.5 Major Customers

A list of the Group's major customers (individually contributing to more than 10% of turnover) for the financial year ended 31 December 2002 is as follows:

Customers	Length of relationships (no. of years)	% of Group revenue
ST Microelectronics Sdn Bhd	> 8	29%
FCI Connectors (M) Sdn Bhd	> 5	23%
Hirose Electric (M) Sdn Bhd	> 3	22%

4.6 Major Suppliers

A list of the Group's major suppliers (individually contributing to approximately 5% or more of purchases) for the financial year ended 31 December 2002 is as follows:

Suppliers	Length of relationship (no. of years)	Materials supplied	% of Group purchases
Chori Singapore Pte Ltd	> 2	Resin - Polyphenylene Sulfide, Polyamide, Polybutyrene Terephthalate	30%
Assab Steels (Malaysia) Sdn Bhd	> 8	Tools Steel	7%
Tohshin Precision (Malaysia) Sdn Bhd	> 3	Resin - Polycarbonate, Packaging materials	5%
Ample Max Engineering	> 4	Tools Steel	5%

4.7 Future Plans, Strategies and Outlook

The LNG Group will continue to concentrate and expand on its core competencies in the design and manufacture of precision moulds, tools, dies, jigs and fixtures for the semiconductor, electronics and electrical, computer and peripherals and telecommunication industries. The industry pervasiveness of these products bodes well for the LNG Group as they provide the LNG Group with natural risk diversification against reliance on any single industry sector. The Directors believe that with the Group's continuous emphasis on R&D and technological improvements, the LNG Group would be able to tap into the opportunities offered for import substitution due to Malaysia's high reliance on imports of moulds and dies.

With concentration on product and design developments, process integration, skills upgrading, market development and with the ready access to the capital market after its listing, the LNG Group sets out its development plans as summarised below.

R&D Plans

The LNG Group's aim is to consolidate its position as a supplier of high-end precision moulds, tools, dies, jigs and fixtures to the MNC customers operating locally and overseas. The LNG Group will focus in improving its fabrication know-how in order to lower operating costs and create product differentiation. In addition, the LNG Group intends to focus its R&D development plan towards acquiring the technical capabilities and skills to venture into synergistic downstream activities, in particular into high speed precision metal stamping and complete manufacturing services for connectors.

The technology paths towards this medium term goal would involve products and processes developments as follows:-

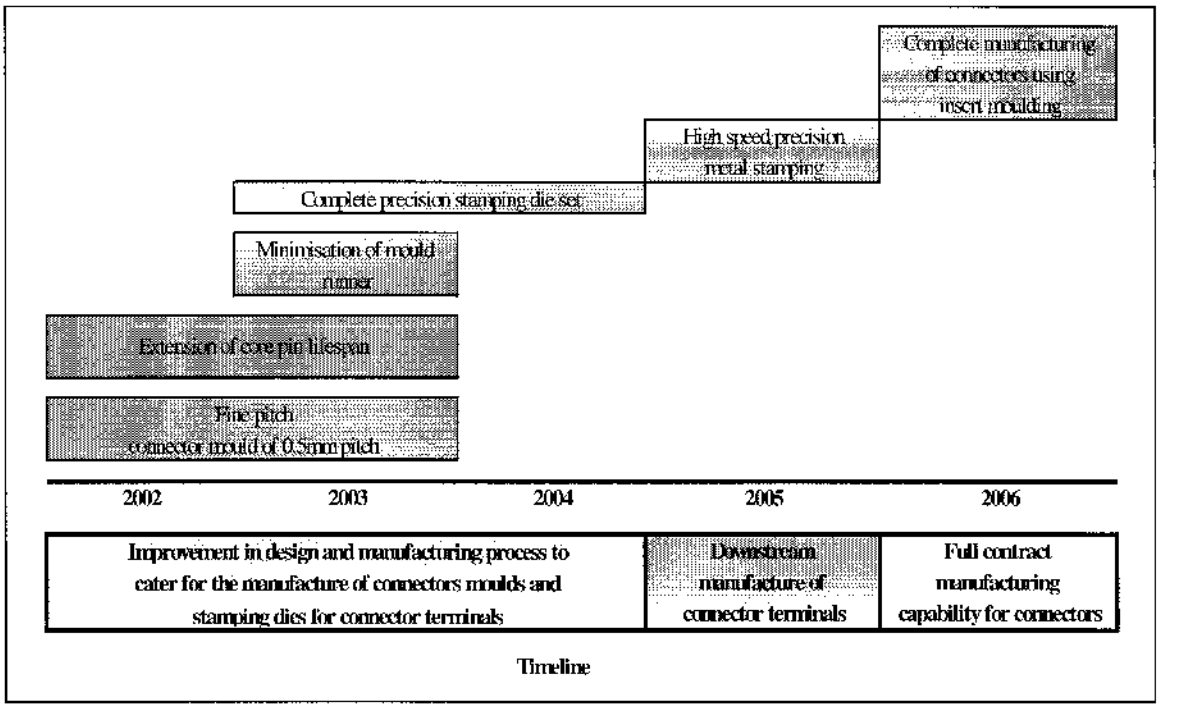
Short Term

- To design and fabricate 0.5mm fine pitch connector moulds.
- To fabricate complete precision high-speed stamping die set.
- Minimisation of mould runners to derive cost savings for the plastic injection moulding division.
- Extension of core pin lifespan to achieve higher durability of interchangeable parts.

Medium Term

- To produce metal connector terminals through development of high-speed precision metal stamping.
- To include precision assembly of complete connector using automated insert moulding process.

The R&D roadmap can be illustrated as follows:



The R&D development strategy apart from the above would include other process improvements and design innovation efforts to constantly keep abreast of the technological changes and the changing demands of the customers.

Market Development Plans

The LNG Group intends to continue positioning itself as a 'one stop' sourcing avenue and as an end-to-end high precision engineering service provider. Marketing development strategies would broadly be in three (3) approaches:

1. Through growth with existing customers

The nature of the mould and die industry is such that it involves high vendor switching costs and requires a long gestation period of acceptance. Consequently, it is usual that the customers and mould and die suppliers such as the LNG Group foster long term business relationships. As the LNG Group has already established a good business relationship with its MNC customers, the LNG Group intends to move up the value chain of its MNC customers supply chain network. The LNG Group intends to market more value added services with its R&D plans focusing on the improvement of its technology and skills and the venturing into further downstream activities as explained in section 4.2.9 of this Prospectus.

2. Through securing new customers

The management of the LNG Group would continue to make direct approaches to other MNCs who require services of high precision engineering services. This may include both local and overseas manufacturing facilities of the MNCs.

3. Through downstream integration

The LNG Group plans to leverage on its synergistic integration of precision engineering services with precision engineering plastic injection moulding. The upstream and downstream integration of the LNG Group provides marketing opportunity to capture new divisional sales.

Moreover, the impending plan of further downstream integration processes of high precision stamping die fabrication and high-speed precision metal stamping would augment its sales and consolidate its position as a 'one stop' sourcing option.

As mentioned in section 4.4.9 of this Prospectus, in the year 2000, the local market demand for moulds and dies was estimated at RM2.2 billion, of which about 60% - 65% were imports from countries such as Japan, Taiwan, Germany, Singapore and Hong Kong. The LNG Group believes that the import substitution opportunities are available as the MNCs and local manufacturers would prefer to source their precision engineering needs from local manufacturers if the local manufacturers are able to satisfy their stringent requirements. Hence, the LNG Group believes that the outlook for the precision mould and die industry is bright due to Malaysia's current high reliance on imported moulds and dies.

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