

4. INFORMATION ON THE SDKM GROUP

4.1 History and Principal Activities

SDKM was incorporated in Malaysia on 20 November 1989 as a private limited company under the Companies Act, 1965 under the name of SDKM Fibres, Wires & Cables Sdn Bhd.

The Company first started its operation at the MIEL factory in Prai in January 1989 before moving into their current premises in Free Trade Zone, Seberang Perai Tengah, Pulau Pinang in August 1989.

On 2 February 2001, the Company converted to a public company and assumed its present name since then.

The Company's principal activities can be categorized into the following:

- manufacture of AV accessory cables and coaxial cables;
- manufacture of AV wires, cords, connectors and AC sockets;
- manufacture of headphones, earphones and AV selector;
- manufacture of optical digital cables;
- assemblies of elevator interphones, doorphones and interphones.

Its wholly owned subsidiary, Ascall was incorporated on 13 August 1997 under the Companies Act, 1965 and is involved in the trading and sales of its in-house brand "ASCALL" video security doorphones for the Malaysian market.

4.2 Changes In Share Capital

The authorised share capital of SDKM is RM50,000,000 divided into 50,000,000 ordinary shares of RM1.00 each while its issued and paid up share capital consists of 40,000,000 fully paid-up ordinary shares of RM1.00 each. Details of the changes in the issued and paid-up share capital of SDKM since its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Allotted	Par Value RM	Consideration	Total Issued And Paid-Up Share Capital RM
20/11/1989	2	1.00	Cash	2
28/4/1990	4,999,998	1.00	Cash	5,000,000
28/9/1990	2,000,000	1.00	Cash	7,000,000
15/10/1991	2,000,000	1.00	Cash	9,000,000
19/11/1991	2,000,000	1.00	Cash	11,000,000
25/9/1992	3,000,000	1.00	Cash	14,000,000
30/9/1992	1,000,000	1.00	Cash	15,000,000
14/8/2000	2,000,000	1.00	Cash	17,000,000
26/10/2001	13,000,000	1.00	Bonus Issue	30,000,000
2/11/2001	3,900,000	1.00	Rights Issue	33,900,000

4. INFORMATION ON THE SDKM GROUP *(Cont'd)*

4.3 The Flotation Scheme

Pursuant to the listing of the entire issued and paid-up share capital of SDKM on the Second Board of the KLSE, the Company had implemented a flotation scheme, which was approved by the SC on 30 August 2001, MITI on 10 July 2001, 26 September 2001 and FIC on 20 June 2001 and 11 December 2001.

The flotation scheme is as follows:

4.3.1 Bonus Issue

On 26 October 2001, SDKM implemented the Bonus Issue, which entails the issuance of 13,000,000 new ordinary shares of RM1.00 each to the existing shareholders of the Company to be credited as fully paid-up on the basis of approximately 765 new ordinary shares for every 1,000 existing ordinary shares held in the Company via capitalisation of RM13,000,000 from the retained profits of RM21,388,395 as at 30 September 2001.

4.3.2 Rights Issue

After the Bonus Issue, SDKM undertook the Rights Issue of 3,900,000 new ordinary shares of RM1.00 each at par to the existing shareholders of SDKM on the basis of approximately 229 new ordinary shares for every 1,000 shares held in the Company. The Rights Issue was completed on 2 November 2001.

4.3.3 Public Issue and Offer For Sale

To facilitate the listing of and quotation for the enlarged issued and paid-up share capital of SDKM on the Second Board of the KLSE and to comply with the listing requirements of the KLSE and the SC with regards to shareholdings, the Company is undertaking a Public Issue of 6,100,000 new ordinary shares and 1,900,000 Offer For Shares of RM1.00 each at an Issue/Offer price of RM1.30 per new ordinary share.

4.4 Business Overview of the SDKM Group

4.4.1 Products and Services of the SDKM Group

The principal end products of SDKM are:

- accessory cords for AV equipment
- cords and connectors for AV equipment
- AC sockets
- cordless headphones
- earphones
- elevator interphones
- security video doorphones
- interphones
- optical digital cables

4. INFORMATION ON THE SDKM GROUP (Cont'd)

A brief description of the usage of the products is as follows:-

Products	Usage
AV, TV, OA cables	Connecting cord that transmits AV signals. Widely used for connection between video or DVD players and TV or hi-fi systems
AC sockets	Power supply socket outlet receptacle for AV equipment
Earphones and headphones	Audio connecting cord that transmit audio signals direct to the user's ear
Digital optic cables	Connection cords that transmit optical AV signals. Widely sold as accessory cables
Accessory Cords – 4 core	High-end connecting cords that transmit AV signals. Widely used as replacements or by hi-fi and AV enthusiasts
Coaxial cables	Connecting cords that transmit video or television signal. Widely used for transmission of video signals between satellite dish and decoder
Interphones and security doorphones	Intercom system widely used for homes, offices, elevators and hospitals

4.4.2 Technology/Software/Systems used by SDKM

SDK entered into a Technical Assistance Agreement (“TAA”) with SDKM on the 2 January 1991 to grant SDKM an exclusive but indivisible and non-transferable right and license without the right to grant sub-licenses, using Industrial Property Rights and Know-How to manufacture and assemble products (as defined in the TAA) in Malaysia and to sell those products manufactured and/or assembled by the Company intended to be used in the manufacturing and assembly of accessory cords and connectors for audio, video, computer and other electronic or electronic requisites, appliances and equipment.

The Industrial Property Rights includes all patents, trademarks and intellectual properties, designs and other statutory industrial property rights relating to the products which is owned by SDK, whilst the Know-How includes any valuable knowledge, information and experience which SDKM has acquired from SDK with respect to the manufacture, distribution and sale of the products. The TAA expired on 1 January 2000.

During the term of the TAA, technology assistance was provided by SDK, which included comprehensive training, provision of technical information, know-how and expertise in the manufacture, distribution and marketing of products. The technology is not of complex nature and with the relevant and necessary on-job training, materials and programs provided by SDK during the initial stages, the Company has fully acquired the knowledge and have adopted the system to its fullest advantage. Since August 2000, the Company has been operating, manufacturing and distributing its products independently without any further assistance from SDK.

Subsequently, the Company and SDK entered into a License Agreement dated 1 March 2001 for the grant by SDK to the Company of an exclusive license to use the Industrial Property Rights and Know-How to manufacture, market and distribute the products.

4. INFORMATION ON THE SDKM GROUP (Cont'd)

Generally, SDKM has benefited significantly from its relationship with its Japan counterparts as this has opened many windows of opportunities in terms of marketing, sourcing for materials, diversification and expansionary programmes, keeping in touch with the latest development in the industry especially in Japan, possessing and tapping on the direct channels to the largest manufacturers of AV products in the world, amongst others.

Further as a gesture of goodwill and the long standing relationship between the Company and SDK, another agreement had been entered into between SDKM and SDK dated 6 August 2001 in respect of the ownership rights over the Intellectual Property Rights pertaining to the Technology (as defined in the Grant of Ownership of Intellectual Property Rights Agreement ("IPR Agreement") for the manufacturing, distributing and marketing of the products. This results in the Company being granted absolutely all the rights benefits and entitlements in respect of the above and further all proprietary rights and benefits accruing thereto. This agreement supercedes all previous agreement entered into between SDK and SDKM.

Salient terms of the Grant of Ownership of IPR Agreement dated 6 August 2001 entered into between SDK and SDKM are:

(i) Grant of Ownership Rights

SDK as the legal and beneficial owner of the Intellectual Property Rights (such rights relating to the Industrial Property Rights, Intellectual Properties, Technical Information and Know How pertaining to the Technology (all as defined therein) grants to the Company, inter alia, the exclusive rights to use the Technology in perpetuity; and all the rights in respect of the manufacture and assembly, marketing and distribution, and the sale of products and parts and as such assigns and confers unto the Company absolutely all the rights, benefits and all entitlements in respect of the Intellectual Property Rights pertaining to the Technology and rights of action powers and benefits accrued or belong to SDK free from all encumbrances and conditions save as disclosed herein the Agreement and further the right to use the Technology in perpetuity.

(ii) Fees

For each and every month that the Company shall employ the Technology in its business, the Company shall pay to SDK such fees as set out in the Agreement or as mutually agreed between the parties.

(iii) Covenants By the Company

At all times during the utilisation and employment of the Technology by the Company, the Company agrees the Technology will only be employed on the Premises or future Premises of SDKM; its activities will be confined to the Territory and it will not attempt to manufacture, the Products or deal with any other similar product in any part of the world outside the Territory without the written consent of SDK; it shall not grant any part of its rights and obligations under this Agreement without prior written consent of SDK save and except for a grant by SDKM to any subsidiary of SDKM and/or to any related company; and it shall permit SDK and/or its agents or representative at reasonable times during business hours and with reasonable notice to enter its premises in order to inspect and audit its operations in respect of the utilisation and/or employment of the Technology.

4. **INFORMATION ON THE SDKM GROUP (Cont'd)**

(iv) Covenants By SDK

SDK represents, undertakes and warrants that it is the legal and beneficial owner of the Intellectual Property Rights pertaining to the Technology; it has the right and title and is duly authorised to grant the Ownership Rights in the Intellectual Property Rights and that the Intellectual Property Rights pertaining to the Technology so granted is valid and subsisting; it shall assign and vest in SDKM all the necessary documents to ensure that SDKM is fully and completely vested with title and ownership of all rights herein contemplated at SDKM's cost; and that it shall not in any manner whatsoever (whether directly or indirectly) interfere and/or prevent SDKM in the utilisation of the Intellectual Property Rights as stated in this Agreement; and that it shall indemnify and hold SDKM indemnified from all and/or any proceeding, claim, loss, damage or liability arising from any infringement of any copyright, patent or trademark or howsoever arising out of the use and/or employment by SDKM of the Intellectual Property Rights pertaining to the Technology.

(v) Default

In the event that SDKM has failed to make such payments of fees, whilst continuing the use and/or employment of the Technology, a default payment being twice the fees for each and every calendar month unpaid, shall be imposed on SDKM and that shall be the only remedy for which SDK is entitled to claim against SDKM and further there shall be no provision for grounds of termination in the IPR Agreement.

(vi) Non-Utilisation of Technology

In the event that the Company ceases to use and/or employ the Technology in its business, the Company shall give one (1) month notice in writing to SDK of such intention and shall not be liable to pay to SDK any Fees, save for any outstanding Fees or Default Payment (if any) owing to SDK.

4.4.3 Brand Names, Patents, Trademarks, Licenses, Technical Assistance Agreement, Franchises and other Intellectual Property Rights

SDKM has applied for registration of trademark for the trademark "SDKM" under Classes 9 and 17. The Company has also registered for its in-house brand "ASCALL" for its intercoms, apartment doorphones and interphones.

Apart from the above, SDKM does not hold any patents, copyrights or franchises.

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4. INFORMATION ON THE SDKM GROUP (Cont'd)

Other Approvals, Major Licenses and Permits held by the Company are as follows :

Authorities	Type of Licence/Approvals/Permits	Salient Details of Conditions Imposed	Status of Compliance
MIDA	<p>Manufacturing License</p> <p>Licence to produce connectors, cables/cords, headphone, wireless and remote control and interphones or parts thereof (where applicable)</p> <p>i) Lot 1-4, KEDA Industrial Building, Kawasan Perindustrian KEDA, Pekan Baru Sik, 08200 Kedah.</p> <p>Licence No.: A 008250</p> <p>ii) Plot 538, Tingkat Perusahaan 4B, Prai Free Industrial Zone, 13600 Prai, Pulau Pinang</p> <p>Licence No.: A 006976</p>	<p>i) The construction date shall be within 6 months from the date of the issuance of the Manufacturing Licence.</p> <p>ii) If approval is granted to the Company to be converted into a public company and to invite the public to buy its shares, then the capital structure, the revaluation of its property, the goodwill and the profit/savings which are used as capital, the manner and the basis on how to issue and divide those shares have to be approved first by the relevant authorities.</p> <p>iii) The original shares which are held by Non-Malaysian shareholders cannot be sold without the prior written approval from the Ministry of International Trade and Industry.</p> <p>iv) The Company shall in its best endeavour recruit and train Malaysian citizens in order to reflect the composition of various races in Malaysia in all levels of position as well as the management level.</p> <p>v) The Company shall ensure that the construction materials, components and equipments used in the project consist of local made materials and shall further ensure that it must not be less than what is stated in its approved project proposal.</p>	The licence is continuing.

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Authorities	Type of Licence/Approvals/Permits	Salient Details of Conditions Imposed	Status of Compliance
MIDA (Cont'd)		vi) The Company shall ensure that it will use the services provided by Malaysian companies and businesses within the context of the New Economic Policy.	
MITI	(i) Manufacturing license License to produce connectors, cables/cords for electronic devices and parts, interphones and parts. (ii) Approval for export conditions in respect of interphones and parts via MITI's approval letter dated 13 May 1996.	Nil SDKM is to export at least 80% of its production of interphones and parts overseas and is not allowed to sell more than 20% in the local market including Free Trade Zone and Licensed Manufacturing Warehouse .	The license is continuing. The approval is still valid. The Company has further applied to MITI for its approval to sell accessory cords locally. The Company is still awaiting MITI's decision on its approval.

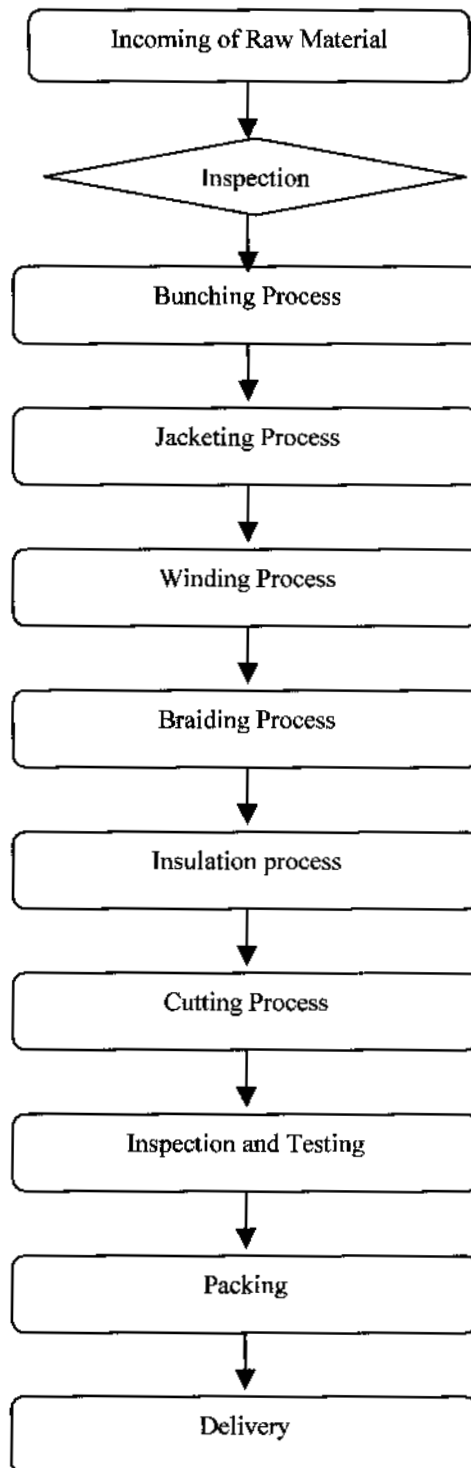
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4.4.4 Production Process or Business Processes

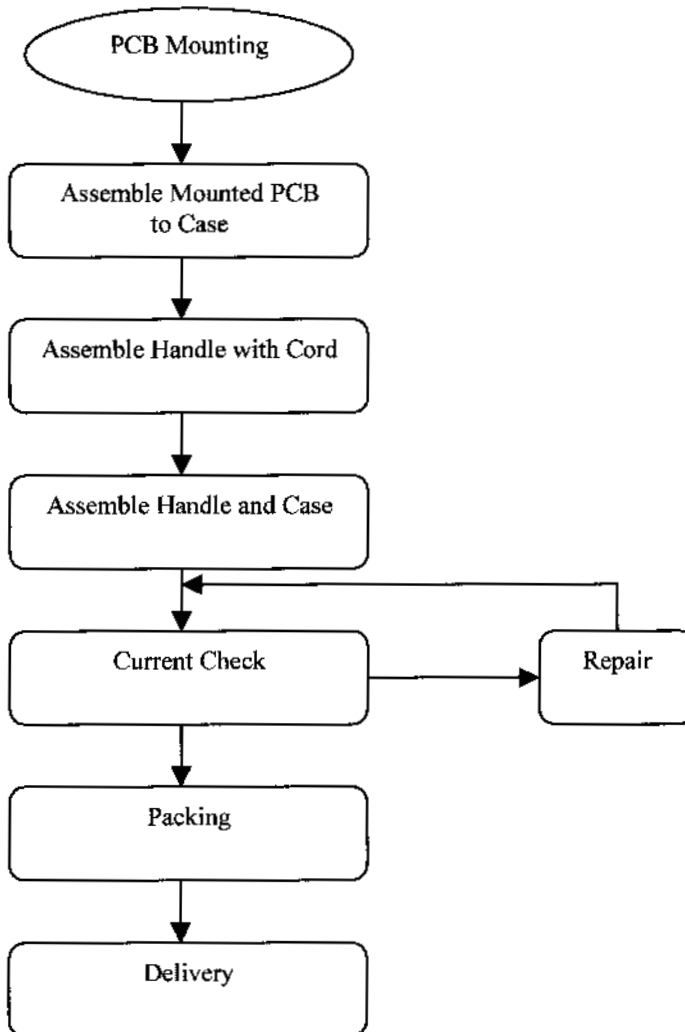
The production process of various SDKM's products are illustrated in the diagrams below:

Process Flow of Cable and Cord Manufacturing



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Process Flow of Elevator Interphone Assembly



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4.4.5 SDKM Group's Market Position, Market Coverage/Share

SDKM Group achieved a turnover of RM51.3 million for its financial year ended September 2000, representing approximately five (5%) per cent of the market share in Malaysia, based on a RM1.0 billion market size for cables and wires in the electrical and electronics industry.

SDKM is ranked tenth based on turnover of RM51.3 million among major manufacturers of cables and wires in Malaysia for the financial year ended September 2000.

(Source: Independent Market Research Report prepared by Vital Factor)

4.4.6 Principal Markets for SDKM's Products

SDKM's principal markets are global in nature. SDKM sells its products directly to foreign MNC residents in Malaysia. The products manufactured are ultimately for the global market, exported by its customers. SDKM also serves the global market directly through its sales to MNC's in Japan, Hong Kong, Taiwan, Singapore and Europe.

The top five (5) major markets of SDKM for the year ended 30 September 2000 are as follows :

Countries	Turnover RM'000	Percentage of total turnover %
Japan	34,569	67.44
MNC residents in Malaysia	13,049	25.64
Hong Kong	2,157	4.21
France	740	1.44
Taiwan	307	0.60

4.4.7 Supply And Availability of Raw Materials and Vulnerability to Imports

The main raw materials used in the manufacture of cables and wires are copper, PVC and ABS. Other raw materials include electronic components such as connectors, terminal, jack and sockets.

The industry is reliant on imports for the supply of copper, however other materials such as PVC and ABS are available locally. Other materials that are imported are mainly electronic components and parts such as connectors, terminals, jacks and sockets. Some of the imports of electronic components and parts may also be under the specifications or requirements of the principal.

As copper is a commodity, it is available from a variety of imported sources overseas.

Imported materials account for approximately 45% of SDKM's total material costs. As such, SDKM is vulnerable to imports.

Within Malaysia, the Government has approved a number of petrochemical production projects including the production of ABS with the capacity to produce 150,000 metric tonne per annum and PVC with the capacity of 123,800 metric tonnes per annum *(Source: Industry Brief, May 2000, Malaysian Industrial Development Authority)*. The local availability in the sources of supply will ensure that threats in supply are minimised.

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Cables, Cords and Related Products

The main raw materials used by SDKM in the manufacturing of cables and wires and their related products are:-

- Copper wires
- PVC and ABS resins for insulation, jacketing and moulding
- Connectors
- Pin jacks

Bare copper wires with diameters of 2.6 millimetres are purchased from locally based Japanese manufacturer – Fujikura (M) Sdn Bhd and Alpha Industries Bhd. The copper wires are priced in Ringgit and are pegged to the international copper price. Purchase of copper accounted for 2.45% of total raw materials purchased for the financial year 2001.

There are more than two suppliers of bare copper wires in Malaysia. Among others, SDKM can also source from Advance Cables Sdn Bhd. As Malaysia does not produce any copper, ultimately all copper for bare copper wires are imported. Thus, if required, SDKM can source bare copper wires from numerous sources world wide in addition to the suppliers in Malaysia. As such, the fact that SDKM sources its bare copper wires from two local suppliers is prudent management practice as not to depend on any one single supplier.

The ABS are purchased locally from Toray Plastics (Malaysia) Sdn Bhd whilst the PVC are imported from Thailand, Riken (Thailand) Co. Ltd. Riken (Thailand) Co. Ltd is an associate of RVI. Purchases from Riken (Thailand) Co. Ltd in the financial year 2001 amounted to RM712,366 or 2.89% of all raw materials purchased.

Connectors are sourced from HMI, who is also a shareholder of SDKM. The transactions between the two parties for the financial year 2001 amounted to RM2.064 million or 8.39% of total raw materials purchased.

Assemblies of Interphones and Security Video Doorphones

The main raw materials used in the assemblies of interphones and security video doorphones are as follows:-

- wires and cables
- precision engineered parts
- electronic parts such as assembled PCB's, speakers and microphones
- moulded plastic components

These raw materials are sourced locally as well as from overseas. The suppliers are on the approved list of vendors of SDKM's customers.

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Some of the reasons for sourcing overseas include:

- quality of local products such as PVC are not consistent and/or below the standards specified by SDKM's customers;
- some suppliers, such as the vendors of semi-finished components for the interphones, are specifically specified by SDKM's customers; and
- products such as blister cards are sourced overseas due to the unavailability of recycled materials locally – the use of recycled materials is required in line with SDKM's MS ISO14001 status.

Management has not experienced any shortages in the availability of raw materials.

4.4.8 Quality Control Procedures

Cables and wires are the basic medium for the transmission of AV and digital signals between electronic equipment. Poor quality cables or wires can result in distortion or interference in transmission signals. Hence, cables and wires must be manufactured to the highest quality if they are to transmit high quality AV and data signals.

The quality control procedures of SDKM Group are as follows:

- Copper, PVC (plastic components) which is the raw material in producing cables and wires must be of high quality;
- Thickness of wires must be consistent;
- To make sure the shielding process is of certain density;
- To ascertain the number of twists is correct;
- To meet the industry standards set by the International Standard Bodies such as Underwriters Laboratories, INC (UL) of USA, Semko (S-mark) of Sweden, Canadian Standards Association (CSA) of Canada or F-Mark of Japan. These standard bodies certify and register products and systems for industries worldwide; and
- Zero defects.

The Group's quality management is further evident by the various awards and recognition as follows:

- Best Supplier 1996 from Sony Video (M) Sdn Bhd;
- Certificate for Quality Management System and Good Quality Results from Sony International (Singapore) Ltd; and
- Testimonial for Excellent Product from Nippon Interphone Co. Ltd.

4.4.9 Research and Development

The focus of SDKM's R&D is in the manufacturing of cables and wires and contract manufacturing of interphones and security doorphones.

The material R&D undertaken by SDKM can be summarized into the following:

- Customisation R&D
- Continuous R&D
- Joint R&D of New Product
- Identifying New Manufacturing Technologies

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Customisation R & D

Every customer's requirements are different. Among others, these differences in specifications are predicated by the following, -

- features of cables and wires
- usage of cables and wires
- raw materials for the products

SDKM undertakes customisation of products for every manufacturing job.

Customisation requires extensive R&D into the final product itself as well as the manufacturing processes. Normally SDKM would undertake the following tasks:-

- research on the types and features of cables and wires required to meet the client's requirements
- design and determine the processes required to manufacture the products
- research and identify the raw materials and components required for the products
- customize its machines and manufacture the final product to meet the customer's requirements.

Continuous R & D

As an integrated cable and wire manufacturer, SDKM undertakes continuous R&D to improve its manufacturing processes according to the world's best practices. It is consistently in search of manufacturing practices to improve its productivity, effectiveness and efficiency, and enhancing product quality. Such R&D activities are undertaken continuously where improvements are implemented on an on-going basis.

Joint R & D for New Product

SDKM also undertakes joint R&D with its customers for new products.

SDKM was involved in the joint design and development with Nippon Interphone Co. Ltd of intercoms, apartment doorphones and interphones for the local and Japanese markets. These products are manufactured by SDKM.

Joint R&D include, among others:

- design of end-products
- modification of manufacturing processes to ensure product quality and improved manufacturing effectiveness and efficiency
- testing the end-products
- minimize cost to customers
- maximize output for customers
- creation of competitive advantages for SDKM.

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R & D Facilities

The R & D facilities of SDKM is inclusive of but not limited to Aging Oven, Profile Projector, Moulding Machine, High Voltage Tester, Spectrum Analyzer, Cord Winding Crack Tester, Static Tensile Force Tester, Parallel Plate Plastomer, Abrupt Pull Tester and Plug Bending Tester.

Future R & D Plans and Personnel

The future R & D plans will be the improvement and expansion of security doorphone range of products and joint design and development with customers (e.g. Sony) for Personal Computer accessories range of products.

The implementation of these plans is expected to be carried throughout the financial year 2002 and 2003. However, the R & D activities are on-going processes to match business requirement.

Currently, the R&D team consists of 21 staff from the R&D and Engineering departments.

Identifying New Manufacturing Technologies

Manufacturing technology is advancing so rapidly that manufacturers of cables and wires have to continually be updated with the latest trends in the electronics industry, as well as the latest manufacturing processes.

Thus, SDKM continually keeps abreast with the latest electronic technologies and manufacturing processes to ensure that it is constantly using the most effective and optimum technologies to meet its customers' needs and requirements.

4.4.10 Key Achievements/Milestones/Awards of the Company/Group

SDKM is accredited with ISO 9001 and MS ISO14001. This provides customers with confidence in SDKM's quality of work.

In addition, SDKM has received quality accreditations from international standards bodies such as UL of USA, Semko of Sweden and CSA of Canada. These accreditations are essential for SDKM to service the MNC and major brand owners. SDKM has the skills and expertise to design and manufacture cables and wires according to these international standards.

The Group has also won numerous quality awards and letters of appreciation from its customers including: -

- Sony Video (M) Sdn Bhd: Best Supplier 1996
- Sony International (Singapore) Ltd: AQCA Certificate for Quality Management System and Good Quality Results
- Nippon Interphone Co. Ltd: Testimonial for Excellent Product – 9 January 1996.

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4.4.11 Modes/Method of Marketing

SDKM utilizes direct channels of distribution through its internal marketing team. Other manufacturers within the industry also commonly use this channel of distribution.

The main reasons for the direct method of distribution are that SDKM's products and services:

- are highly complex and technical due to the niche market it serves;
- involve significant commitments from both the manufacturers and the customers; and
- undergo a long sales cycle of verification, compliance and negotiation.

SDKM's products are customized to meet each of its customers' technical specifications. As such, direct channels of distribution are more effective than indirect channels of distribution.

Marketing Strategies

SDKM utilizes the following marketing strategies to sustain and expand its businesses by:

- becoming a manufacturer of high-end products such as accessory cables and wires and coaxial cords;
- providing an extensive range of products and services and cross selling these products and services;
- providing the highest quality of products and customer services to establish long term customer loyalty and obtain repeat businesses;
- undertake extensive R&D to ensure continually product and service innovation to stay ahead of the competition as well as better meet the needs of customers; and
- regularly participate in trade shows to promote and market its products and services

4.4.12 Production/Operating Capacities and Output

The Group currently has two (2) factories.

SDKM, Penang

The Penang plant, located in the Prai Free Trade Zone, was established in 1989. It occupies a built-up area of 10,231.65 sq. m. and as at 15 January 2002 employs 355 employees.

The factory operates on one nine-hour shift per day. It is running at 71% of its maximum capacity.

SDKM Penang was accredited with MS ISO 9002 and MS ISO 14001 by SIRIM in 1995 and 2000 respectively. In 2001, SDKM was accredited with MS ISO 9001.

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SDKM, Sik

The plant in Sik was established in 1991. It was subsequently expanded in 1998, which has resulted in an increase in its capacity of 20%.

The plant occupies a built up area of 4,700 sq. m. and as at 15 January 2002 employs 270 employees.

It operates on one nine-hour shift per day and is running at 71% of its maximum capacity.

SDKM's current average monthly capacity for both factories is as follows:

- 899,000 accessory cords and coaxial cables
- 451,000 AC sockets
- 23,000 elevator interphones and security doorphones
- 139,000 cordless headphones and earphones
- 65,000 optical digital cables.

Details of the principal assets, its production capacities and output are as follows :

(i) Assembly Section

Machine	Functions	Products	Output (Per month)	% of Utilisation
Conveyor Machine-Bobbin Type	To route products to various processes in a rotary roller in U shape with equipment and jig required allocated in line.	Accessory cord, coaxial cables, earphones, optical digital cables.	1,064,000 pieces	71
Conveyor Machine-Belt type	To route the products or materials to various processes in a straight conveyor belt with equipment and jig required allocated in line.	AC sockets, elevator interphones, security doorphones, cordless headphones.	513,000 pieces	71

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(ii) Manufacturing Section

Machine	Functions	Products	Output (Per month)	% of Utilisation
Injection Machine-Horizontal type	To produce a plug by injecting the components such as sleeve, center pin into the resin material.	All types of plugs such as 3 pin plug, mono, plugs and pin jack.	2,206,000 pieces	80
Injection Machine-Vertical type	To produce a plug by injecting the components such as sleeve center pin into the resin material.	All types of plugs such as 3 pin plug, mono plugs and pin jack.	2,206,000 pieces	80
Moulding machine	To mould the PVC parts by melting the resin into specific shape and design.	All types of moulding parts such as cap, casing and cover.	1,573,000 pieces	75
	To joint two or more parts by melting the resin into specific shape and design.	All types of half processed products that comprises of wire, plug and cap.	5,784,000 pieces	75
Copper Drawing Machine/Stretching Machine	To draw copper wire from diameter 2.6 mm to various sizes.	Stretched copper wire in various diameter.	6,953 kg	95
Bunching Machine	To twist and combine several drawn wire into required specification. For example 14 pieces of 0.12 copper wire are twisted together to produce copper wire known as 14/012 mm.	Twisted copper wire in various specification.	1,121 kg	95

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Machine	Functions	Products	Output (Per month)	% of Utilisation
Braiding Machine	To add drawn copper wire in the outer layer of the "Inner Conductor" according to various "Braid" specifications.	Braided wire in various specifications.	1,901 kg	95
Spiral Machine	To add drawn copper wire in the outer layer of the "Inner Conductor" according to various "Spiral" specifications.	Spire wire in various specifications.	2,942 kg	95
Wire Cutting Machine	To cut the wire and/or cord according to the required lengths.	Cut wire in various lengths.	315,119 pieces	90
Extruding Machine	To produce "Core" or "Inner Conductor" by covering up the bunched wire with a layer of resin or compound.	Inner layer insulated wire in various specifications.	2,091 kg	100
	To produce "Outer Insulation" by covering up the spire or bunched wire with a layer of resin or compound. Last process in producing a wire or cord.	Completed wire in various sizes and specifications.	10,783 kg	100

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(iii) Quality Control and R & D Section

Machine	Functions	Products
Accessory Cord Tester	To test the completed accessory cord.	Accessory cords, coaxial cables and optical digital cables.
Doorphone Alignment Tester	To test the alignment of doorphone	Doorphones
Headphone tester	To test the completed headphone.	Headphones
Bending Machine	To test the flexibility of wire	Completed wire
Spot Welder Machine	To join copper wire of a cord with a metal plug by using spotting method.	All types of products.
Ultrasonic Welder	To join 2 plastic parts together.	All types of products.
Waveform Monitor	To test PCB for monitor set. Obtain video signals for TV system.	Elevator Interphones, security doorphones and headphones.
Speaker Analyzer	To measure frequency response, impedance and admittance characteristics of the speaker.	Elevator interphones and security doorphones.
Spectrum Analyzer	Measure DB (decibel) lost	Elevator interphones and security doorphones.
SMT Tester	To test component values, short and open circuit.	All types of products.

4.4.13 Interruptions in Business For the Past Twelve (12) Months

The Group has not experienced any interruption in its business activities which have had any significant effect on its operations during the last twelve (12) months.

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4.5 Subsidiary Company

The subsidiary company of SDKM is as follows:

Name	Date & Place of Incorporation	Authorised Ordinary Share Capital RM	Issued and Paid-Up Ordinary Share Capital RM	Effective Equity Interest %	Principal Activities
Ascall	13/8/1997 Malaysia	100,000	100,000	100	Trading and sales of its in-house brand "ASCALL" video security doorphones

(i) History and Business of Ascall

Ascall was incorporated in Malaysia on 13 August 1997 as a private limited company under the Companies Act, 1965 under the name of Ascall Sdn Bhd.

Ascall is principally involved in the trading and sales of its in-house brand "ASCALL" video security doorphones for the Malaysian market.

As at the date of this Prospectus, Ascall does not have any subsidiary or associate company.

(ii) Share Capital

The authorised share capital of Ascall is RM100,000 divided into 100,000 ordinary shares of RM1.00 each, of which RM100,000 comprising 100,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

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

Date of Allotment	No. Of Ordinary Shares Allotted	Par Value RM	Consideration	Total Issued And Paid-Up Share Capital RM
13/8/1997	2	1.00	Subscribers' shares	2
12/12/1997	99,998	1.00	Cash	100,000

4. INFORMATION ON THE SDKM GROUP (Cont'd)

4.6. Industry Overview

The Cables and Wires Industry is a major sub-sector of the Electrical Industry. Of the total output of RM4.7 billion registered for the Electrical Industry for the year 2000, Cable and Wires was one of the major contributing sectors (Source: *Industry Brief on the Electrical and Electronic Industries in Malaysia*, Malaysian Industrial Development Authority, February 2001).

As a sub-sector, output from Cables and Wires was estimated to be valued at RM3.5 billion in 2000 (Source: *Industry Brief on the Electrical and Electronic Industries in Malaysia*, Malaysian Industrial Development Authority, February 2001). The sector of Cables and Wires includes the production of a wide range of power and telecommunications cables including aluminium cables, primary and secondary telephone cables, optical fibre cables, cross link polyethylene cables ("XLPE"), as well as household cables, flexible cords, electronic cables and wires. A total of 163,074 tonnes of Cables and Wires were produced in 2000, representing an increase of 41.3% over the previous year. (Source: *Monthly Manufacturing Statistics July 2001*, Department of Statistics).

SDKM operates within the Cables and Wires sector, which forms an integral part of electronics equipment. Besides the transmission of AC power, Cables and Wires interlinks electronic equipments, their accessory components and output components. Within an audio or visual system, the audio and visual signals are transmitted through Cables and Wires from the source components (e.g. DVD player) to other components within the system (e.g. amplifier or video player) or directly to the output components (e.g. television or speakers). Cables and Wires are the major mode of transmission for audio and visual signals between different electronic equipments.

SDKM services the Electronics industry by producing sub-components in the form of Cables and Wires. Its other activities also include manufacturing and marketing of security video doorphones for the Malaysia market under its in-house ASCALL brand name.

The principal end-products manufactured by SDKM include:

- accessory cord for AV equipment
- cord and connector for AV equipments
- AC sockets
- cordless headphones
- earphones
- elevator interphones
- security video doorphones
- interphones
- optical digital cables.

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4. INFORMATION ON THE SDKM GROUP *(Cont'd)*

Some of the major local operators of Cables and Wires for Electrical and Electronics Industry include:

- Supercomal Technologies Berhad
- P. I. E Industrial Berhad
- Wonderful Wire & Cable Berhad
- Leader Universal Holdings Berhad
- Advance Cable (M) Sdn Bhd
- Fujikura Federal Cable Sdn Bhd
- Furukuwa Electric Cables (M) Sdn Bhd
- Central Cable Bhd
- SDKM

Within the Cables and Wires Industry in Malaysia, SDKM ranked **tenth** based on a turnover of RM51.3 million among major manufacturers of Cables and Wires in Malaysia in 2000.

4.6.1 Demand and Supply Conditions and Substitute Products/Services

Demand for Cables and Wires will predominantly come from Electronic products. As such, demand for SDKM's products will ultimately be dependent on the global demand for electronic products as well as the economic performance of Malaysia's principal export markets.

The supply of Cables and Wires for the Electrical and Electronics Industry are dominated by the following operators, some of which include Supercomal Technologies Berhad, P. I. E Industrial Berhad, Wonderful Wire & Cable Berhad, Leader Universal Holdings Berhad, Advance Cable (M) Sdn Bhd, Fujikura Federal Cable Sdn Bhd, Furukuwa Electric Cables (M) Sdn Bhd, Central Cable Bhd and SDKM.

Currently there is no direct substitute for Cables and Wires in electronic equipments. However there are alternatives in terms of the materials used in cables and wires for example aluminium in place of copper, and various types of plastic for the insulation and jackets.

Infrared, radio frequencies or other wireless transmission may present a threat but are unlikely to completely replace cables and wires. Currently, wireless technologies are only applied to selected devices that interface directly with the users e.g. remote controls, keyboard, mouse, headphones and devices using Bluetooth technology due to costs and limitations. AC and DC power supply to the electronic equipment still have to be transmitted via cables and wires.

(Source : Independent Market Research Report prepared by Vital Factor)

Detailed information on the demand and supply conditions is set out in Section 11 of this Prospectus.

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4. INFORMATION ON THE SDKM GROUP (Cont'd)

4.6.2 Areas of Growth and Opportunities

Areas of growth and opportunities for the Cables and Wires Industry include the following:

(i) **Export Opportunities**

- In 1999 and 2000, the industry exported RM1,307.4 million and RM1,316.4 million worth of Cables and Wires respectively, indicating a trend towards exports (*Source: The Electronics Industry, Industry Brief February 2001, Malaysian Industrial Development Authority*).
- As such, there are opportunities for export for manufacturers of Cables and Wires. Malaysian made products are now widely accepted by the world community for its quality product and technology, especially for the Electrical and Electronic products and components.

(ii) **Maximising on the Development of Multimedia Super Corridor (MSC)**

- The development of the MSC in Malaysia has attracted multinationals and foreign operators of Information Technology and high technology related goods and services. This development opens up a whole host of opportunities for local Cables and Wires manufacturers to provide support to MSC companies.
- Local manufacturers of Cables and Wires can capitalise on the advantages of proximity and opportunities in manufacturing Cables and Wires and electronic components to MSC companies.

4.6.3 Threats and Risks Analysis

Shift in Manufacturing Base

- (i) In the long term, Malaysia could lose its manufacturing competitiveness to lower cost producing countries like China, Philippines, Indonesia and Thailand. These countries may attract MNCs to establish their manufacturing bases at the expense of Malaysia. If this occurs, the impact on the cable and wire manufacturers will be significant.
- (ii) However, Malaysia's excellent infrastructure, especially in terms of supporting industries for the manufacturing sector, would continue to provide her with significant comparative advantages over other low-cost production countries up till such time they catch up.
- (iii) If such a situation occurs, manufacturers may have to establish branches overseas to provide technical support and liaison with customers while the actual production remains in Malaysia.

4. INFORMATION ON THE SDKM GROUP (Cont'd)

Economic Downturn

- (i) In the event of a prolonged economic downturn, particularly for Malaysia's main trading partners like the US, Europe, Japan and Asia, will significantly impact on the sustainability of the cables and wires industry.
- (ii) This is a highly likely scenario as a result of the current economic downturn and the recent terrorist attack on the US that is likely to prolong and deepen the current economic slowdown.
- (iii) Malaysia has a wide manufacturing base, exports to many countries, has significant agricultural-based exports and also a sizeable domestic market as opposed to some other countries like Singapore. As such, these factors will help minimise and insulate Malaysia somewhat from a prolonged economic downturn in external economies.

(Source : Independent Market Research Report prepared by Vital Factor)

4.6.4 Critical Success Factors

The critical success factors for cables and wires manufacturers are:

(i) Quality and Meeting International Specifications

Manufacturers must be able to comply with quality standards as well as meeting international specifications to ensure continuing success.

(ii) Established Customer Base

The nature of the cables and wires industry is that the process of winning a customer is tedious and requires a long lead-time. This is particularly true in an industry whereby the major customers are MNC. As such, having state-of-the-art machines and extensive research and development is required before a customer is won. Thus, it is rather difficult for a new entrant to sustain itself without building up its customer base.

(iii) R&D

R&D capabilities are critical in order to achieve quality, cost efficiencies and meet technical specifications. The ability to provide technical input, jointly develop and design the tools and products would provide the manufacturer with additional edge.

(iv) Service

Excellent in service and timely delivery of products are critical in winning and retaining customers.

(v) Cost

Although cost of production may not be the main criteria in winning a job from the MNC, it is nevertheless still important, as lower production cost would ultimately translate into lower product cost. This is highly critical for the MNC operating in very competitive markets in light of the ever-changing technology.

4. INFORMATION ON THE SDKM GROUP (Cont'd)

(vi) Value Added Services

The provision of other related value added services would provide synergistic benefit to the MNC in terms of reduction in production time and costs as well as management of logistics. By dealing with only a few key vendors, the MNC would have more time to concentrate on product development and marketing.

(Source : Independent Market Research Report prepared by Vital Factor)

4.6.5 Industry Players and Competition

There are many players within the application development market. Major players that directly compete with SDKM are as shown in the table below.

Name	Nature of Business
Supercomal Technologies Berhad	Manufacturing of wires and cables for electrical and electronic devices.
P.I.E Industrial Berhad	Original equipment manufacturer supplier and manufactures cables and wires related products according to client's specification.
Wonderful Wire & Cable Berhad	Manufacture and trading of electrical wires and cables for household electrical appliances, electrical utilities and the construction and telecommunications industries.
Leader Universal Holdings Berhad	Manufacture and sale of telecommunication and power cables, aluminium rods, copper rods, switchboard cables and various electronic wires.
Advance Cable (M) Sdn Bhd	Engaged in the development, design, production, marketing and distribution of copper wire and cable products.
Fujikura Federal Cable Sdn Bhd	Manufactures various type of cables and wires
Furukuwa Electric Cables (M) Sdn Bhd	Manufacture of copper and aluminium electrical cables and wires for transmission and distribution of electric power and telecommunication and other types of cables and wires.
Central Cable Bhd	Manufacture of aluminium and copper conductors and cables
Asahi Best Base Sdn Bhd	Manufacture of electrical wires and cables

(Source : Independent Market Research Report prepared by Vital Factor)

4. INFORMATION ON THE SDKM GROUP (Cont'd)

Competitive nature of the industry

Operators in the Cables and Wires Industry face **normal** competitive conditions.

As with most free enterprise environments, competition is based on a number of factors, including:

- Quality of products and services;
- Cost competitiveness;
- Prompt delivery schedules; and
- Manufacturing capabilities and capacities.

Competitive Intensity

Despite the many operators in the market, intensity of competition varies at different levels, based on the following observations:

- manufacturers of mass produced and low-value audio-visual Cables and Wires experience **high competition**. This is due to the fact that most of the existing Cables and Wires manufacturers in the country are operating in this sector and the ease of entry creates a large pool of manufacturers.
- manufacturers of accessory Cables and Wires or higher-end Cables and Wires, however experience **moderate competition** due to the fact that the manufacturing process and technology are more demanding. Barriers to entry may include experience, know-how and high capital investments particularly in specialised machines that are able to produce copper wire of consistent pitch and thickness.

Competition From other Countries

The level of intensity of competition for Malaysian Cables and Wires manufacturers is **higher** at the global level. The main competition is more likely to come from lower production cost countries like China, Indonesia, Philippines and Thailand.

These countries with their comparatively lower labour cost structures are able to compete against Malaysia.

However, Malaysian Cables and Wires manufacturers will continue to be competitive based on the following advantages:

- superior infrastructure in terms of transportation and telecommunications;
- significantly higher quality products and services;
- strong support industries for supply of raw materials, parts and components, particularly electrical and electronic components, plastic parts and packaging materials;
- large pool of trained human resources, including senior management and technically skilled and semi-skilled labour resulting from many years of development of the electronics industry.

Although in the short term, competition from lower cost countries continue to be moderate, in the longer term, these countries may improve to become major competitors to Malaysia.

As such, the Government has urged and provided incentives for local manufacturers to move into higher value areas and increased complexity and integration. This will ensure that Malaysia will always be at least one step ahead of lower cost countries that compete only on price.

4. INFORMATION ON THE SDKM GROUP (Cont'd)

Key Players in the Industry

Some of the major local manufacturers of Cables and Wires for Electrical and Electronics Industries include:

- Supercomal Technologies Berhad
- P. I. E Industrial Berhad
- Wonderful Wire & Cable Berhad
- Leader Universal Holdings Berhad
- Advance Cable (M) Sdn Bhd
- Fujikura Federal Cable Sdn Bhd
- Furukawa Electric Cables (M) Sdn Bhd
- Central Cables Bhd
- SDKM

(Source: Primary Market Research undertaken by Vital Factor)

4.6.6 Laws and Regulations Governing the Industry

Apart from the normal manufacturing licenses, there are no material government laws, regulations and policies that may impede on the performance and growth of the cables and wires industry.

In order to provide a conducive environment to support and nurture the industry, the Government will continue to provide the following incentives:

- (i) Pioneer status scheme and investment tax allowance under the Promotion of Investments Act, 1986 whereby:
 - (a) a partial tax exemption for five (5) years for a selected range of electrical and electronic products, including high technology industries; and
 - (b) Investment tax allowance on capital expenditure incurred within five (5) years.
- (ii) Reinvestment allowance for the expansion of production capacity, modernising and upgrading of plant and machinery and diversification into related products.

Under the Licensed Manufacturing Warehouse (LMW) and Free Zone, companies manufacturing goods for export are eligible for the following:

- (i) Exemption from duty and sales tax on machinery and equipment.
- (ii) Drawback of excise duty for parts, ingredients or packaging of goods manufactured for the export market.
- (iii) Drawback of sales tax on duty paid for goods used as materials for the manufacture of export products.

(Source : Independent Market Research Report prepared by Vital Factor)

4. INFORMATION ON THE SDKM GROUP (Cont'd)**4.7 Major Customers (more than 10% of turnover)**

The major customers of the SDKM Group are as follows:

	Customers	Products Purchased	Length of relationship (years)	Proportion of SDKM's turnover (%)
1	SDK	Earphones, Accessory Cords, Optical Digital Cables etc.	12	26.88
2	Victor Company of Japan Limited	Accessory Cords, Optical Digital Cables	6	20.31
3	Sony Electronics (M) Sdn Bhd	Accessory Cords, Optical Digital Cables	9	17.84
4	Nippon Interphone Co. Ltd	Elevator Interphones, Intercoms, Doorphones	5	15.03
	Total			80.06

Note : The percentages of the above major customers are based on the turnover for the financial year ended 30 September 2001

For the financial year 1999 to 2001, the patterns of purchases by each of the major customer change on a yearly basis set out as follows:

- purchases from SDK range from a low of 26.9% to a high of 28.7%. For the first four (4) months from October 2001 to January 2002 of the financial year 2002, purchases from SDK is 17.1%; *
- purchases from Victor Company of Japan Limited range from a low of 20.3% to a high of 26.0%. For the first four (4) months from October 2001 to January 2002 of the financial year 2002, the purchases is 21.5%; *
- purchases from Nippon Interphone Co. Ltd range from a low of 11.7% to a high of 16.1%. For the first four (4) months from October 2001 to January 2002 of the financial year 2002, the purchases from this customer is 13.4%; *
- purchases from Sony Electronics (M) Sdn Bhd range from a low of 1.5% to a high of 17.8%. For the first four (4) months from October 2001 to January 2002 of the financial year 2002, the purchases from this customer is 35.2%; *

* *Based on SDKM's unaudited management accounts.*

The varying percentages of purchases by these four major customers since 1999 suggest that SDKM is not overly dependent on any single customer.

4. INFORMATION ON THE SDKM GROUP (Cont'd)

Each of the main customers purchases a very wide range of products. In a year, each of the main customers can buy as many as 100 or more different products from SDKM. This wide product range purchased by each of the main customer reduces the dependency on any one product as failure to accept any one product would be negligible compared to the total product range purchased.

Additionally, some of these smaller customers are also major brand names in the Electrical and Electronics Industry and these include, among others, Onkyo, Yamaha, Kenwood and Pioneer.

SDKM is not totally dependent on any single major customer. Its largest customer, SDK accounts for 26.88% of SDKM's turnover in the financial year ended 30 September 2001.

SDKM has established good working relationship with its customers. This is further supported by the fact that approximately 55% of its top 20 customers have been with the Group for six (6) years or more.

4.8 Major Suppliers (more than 10% of purchases)

Supplier	Raw Materials Supplied	Length Of Relationship (Years)	Proportion of Total Purchases of Raw Materials (%)
Gosho Trading Co. Ltd, Taiwan	Wire, Plug Adapter, Press Parts	12	17.61

Note : The percentage of the above supplier is based on total purchase for the financial year ended 30 September 2001

SDKM has a wide supplier base. For the financial year ended 30 September 2001, SDKM has approximately 70 suppliers. Its top 20 suppliers account for 89.55% of total raw material purchases. All its other suppliers, supply less than 10% of the total raw material purchases. Its largest supplier, Gosho Trading Co. Ltd, Taiwan accounts for 17.61% of total raw material purchased for the financial year ended 30 September 2001.

SDKM has established strong working relationship with its suppliers. This is indicated by the fact that approximately 60% of its top 20 suppliers have been supplying the Group for an average of six (6) years.

4.9 Future Plans, Strategies and Prospects

The Directors of SDKM are of the opinion that the Group will be able to maintain its competitive edge and take full advantage of the recovering Malaysian economy. In order to maintain its position and sustain growth, the Group intends to do the following:

4. INFORMATION ON THE SDKM GROUP (Cont'd)

(a) Manufacturing of New Product Line

In line with the electronic industry's shift into digital technology, SDKM plans to build on its established track record and reputation by expanding into the manufacturing of digital communication cables.

The two main categories of products are:

- optical digital cables; and
- digital satellite cables

These products use fibre optic technology. This would provide significant product diversification away from over-dependency on copper-based cables and wires.

Currently, SDKM is already involved in the manufacturing of optical digital accessory cables for Sony. SDKM has also started qualification runs for another new product, digital satellite communication cables for Sony and its production is expected to commence in the last quarter of 2002.

Another new product currently under negotiation is the manufacture of the telephone accessories. Production of this new product is expected to commence in second quarter of 2002.

(b) Expansion of New Contract Manufacturing

As a contract manufacturer of interphones and security doorphones, SDKM plans to build on its experience and track record to diversify into assembly of other related electronic end products.

This will greatly reduce SDKM's dependency on the cable and wire products and to position SDKM as a major contract manufacturer in the country.

SDKM's future plan as an Original Equipment Manufacturer (OEM) will focus on undertaking contract manufacturing work from MNC starting with its existing customer base, for example Sony.

This will further diversify SDKM's geographical dependency as most of these MNC consumer electronic products are marketed worldwide.

(c) Expansion of Original Brand Manufacturer Activities

SDKM intends to expand its Original Brand Manufacturer (OBM) activities.

SDKM aims to leverage from its current "ASCALL" range of products which include:

- Security video intercoms;
- Doorphones;
- Intercoms; and
- Elevator Intercoms.

The Group intends to build on its expertise to integrate its key competencies in concept design, manufacturing and merchandising.

4. INFORMATION ON THE SDKM GROUP (Cont'd)

(d) Marketing and Retailing of ASCALL Products

Currently SDKM has established its own brand, ASCALL, for security video intercoms and doorphones for the local market.

It is currently in the very early stage of introducing the product into the local market.

Its next step is to aggressively market the ASCALL brand locally. It plans to tie up with major local property developers and appoint marketing agents throughout Malaysia.

SDKM also plans to set up local retail offices to allow it to gain direct sales experience. This will enable SDKM to provide its manufacturing operations with consumer feed back as well as understand the selling process to better support its agents locally and overseas.

After establishing the local market, SDKM intends to market its products overseas including countries in the Middle East. SDKM intends to use agents to service overseas markets.

SDKM would require to undertake significant amount of sales and marketing activities to market its products effectively which includes, among others :

- Advertising and promotions;
- Logistics and distribution;
- Agency development;
- Brand image development;
- Market positioning;
- Market research;
- Development of sales team; and
- Development of retail outlets.

(Source : Business Assessment Report prepared by Vital Factor)

Prospects/Outlook

The Industry is expected to grow at approximately 3% to 5% per annum for the next five years from 2002 to 2006. In the short term, particularly for 2002, the Cables and Wires Industry is expected to experience decline in light of recent events which include the 11 September 2001 terrorist attacks on the United States of America (US) and the slowdown in the economic performance of Malaysia as well as its main trading partners especially the US.

Assuming the Cables and Wires Industry continues to be depressed for 2002 and a turnaround takes place from 2003 onwards, this means the five-year forecast period would start on a low base in 2002. As such, a growth rate of 3% to 5% from 2002 to 2006 is highly probable.

In light of the industry outlook, the management of SDKM is confident of the Company's growth. This is in line with its future plans and strategies of diversification into the manufacturing of other electronic end-products, fibre optic cables, which is a new product line and the continuing promotions and marketing of its own ASCALL line of products ranging from doorphones to security related products.