

(Prepared for inclusion in the Prospectus)

**PAKATAN PROPERTY
CONSULTANCY SDN BHD**
(405011-U)



Suite 1401B, 14th Floor, Campbell Complex,
Jalan Dang Wangi, 50100 Kuala Lumpur, Malaysia.
Tel: 603-2692 3236 Fax: 603-2692 6457
E-mail: admin@ppc.com.my Website: www.ppc.com.my

KAMARUZZAMAN SAAD
B. Sc. (Hons) Land Man., MISM

SIDAPESAN SITTAMPALAM (SIDERS)
B. Sc. (Est Man.) U.K., MBA (Real Est.) Sydney,
MRICS, F. Land Inst, MISM

SARKUNAN SUBRAMANIAM (SARKY)
ARMIT, B. BUS (Prop), AAPI, MISM

The Board of Directors
Yikon Corporation Bhd.
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

16 April 2002

Dear Sir,

**VALUATION CERTIFICATE
FOR PROPERTIES BELONGING TO YIKON CORPORATION BHD.**

This letter has been prepared for inclusion in the Prospectus to be dated **24 APR 2002** in relation to the Public Issue of 6,000,000 new share of RM1.00 each and Offer for Sale of 4,020,000 shares of RM1.00 each at an Public Issue/Offer for sale price of RM1.80 per share and the listing of and quotation for the entire issue and paid-up share capital of Yikon Corporation Bhd ("YCB" or "the Company") on the Second Board of the Kuala Lumpur Stock Exchange.

The Valuations had been carried out in accordance with the Guidelines on Asset Valuations for Submission to the Securities Commission issued by the Securities Commission and the Manual of Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

In accordance with the instruction from YCB, we have valued the properties belonging to YCB and its subsidiary companies ("YCB Group" or "the Group") as mentioned below.

In our opinion, we consider the Market Value of the following properties to be as follows:-

A) PROPERTY HELD FOR OWNER OCCUPATION

Ref. No.	Date of Valuation/ Inspection	Property Address	Title Particulars/ Tenure	Description of Property/ Existing Use	Approx. Age of Building (Years)	Market Value/ Method of Valuation
PPC/00/V619	20.10.2000/ 20.10.2000 (Inspected Internally)	No. 36, Hilir Sungai Keluang 2, Bayan Lepas Industrial Estate, Phase IV, 11900 Bayan Lepas, Pulau Pinang.	H.S.(D) 8657, Lot P.T. No. 2848, Mukim 12, District of Barat Daya, State of Pulau Pinang. 60-year leasehold expiring on 31 October 2053.	A single storey detached factory with a single storey office annexe. Corporate Head Office.	8 (As at date of inspection)	RM 4,130,000.00 Comparison/ Summation and Income Capitalisation Methods.

Sub Total **RM 4,130,000.00**






B) PROPERTIES WHICH ARE SURPLUS TO OPERATIONAL REQUIREMENTS

Ref. No.	Date of Valuation/ Inspection	Property Address	Legal Description/ Tenure of Master Title	Description of Property/ Existing Use	Approx. Age of Building (Years)	Market Value/ Method of Valuation
PPC/00/V620	20.10.2000/ 20.10.2000 (Inspected Internally)	No. 122-4-1, 4 th Floor, The Penang Gold And Jewellery Exchange Centre, Jalan Sungai, 10150 Pulau Pinang.	Developer's Unit No. 1, 4 th Floor, The Penang Gold And Jewellery Exchange Centre erected on Lot Nos. 735, 736 and part of Lot 952, Section 9W, North-East District, State of Pulau Pinang. Freehold.	A flatted factory unit. Tenanted on a month to month basis for a monthly rent of RM3,000.00 per month.	6 (As at date of inspection)	RM 370,000.00 Comparison and Income Capitalisation Method
PPC/00/V621	20.10.2000/ 20.10.2000 (Inspected Internally)	No. 1-C, Vermont Road, 11460 Pulau Pinang.	Geran 23972, Lot No. 1360, Seksyen 3, Town of George Town, District of Timur Laut, State of Pulau Pinang. Freehold.	An extended 2 ½ -storey semi-detached house. Tenanted for a term of one (1) year from 1 May 2000 at RM2,500.00 per month.	15 (As at date of inspection)	RM 730,000.00 Comparison and Cost Methods.

Sub Total RM 1,100,000.00
Grand Total : RM 5,230,000.00

Yours faithfully

PAKATAN PROPERTY CONSULTANCY SDN BHD


SARKUNAN SUBRAMANIAM
ARMIT, B. Bus (Prop), AAPI, MISM
Registered Valuer (V-432)

(Prepared for inclusion in this Prospectus)



INDEPENDENT EXPERT OPINION

15 April 2002

The Board of Directors
Yikon Corporation Bhd
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

Dear Sirs

Assessment of the Business and Prospects of Yikon Corporation Bhd

The following is the full report on the Business and Prospects of Yikon Corporation Bhd (YCB) prepared by MIDF Sisma Securities Sdn Bhd for inclusion in the Prospectus of YCB to be dated 24 APR 2002 in relation to its public listing on the Second Board of the Kuala Lumpur Stock Exchange.

1. INTRODUCTION

1.1 ABSTRACT

Yikon Jewellery Industry Sdn Bhd (YJI) started fabricating gold jewellery in a big way in the 1980s when it expanded its business to the export market. Its determination to penetrate the overseas market, particularly the Middle East, bore fruit when turnover rose to RM35.41m in FY97 from RM22.82m in FY96.

The 1997 economic crisis, however, affected the company's business, as the turnover fell to RM18.75m in FY98 and RM19.99m in FY99. Nevertheless, with aggressive marketing efforts, YJI managed to register growth again in FY2000. Sales were boosted further in FY2001, to a record level of RM57.7m, contributing to a PBT of RM6.7m.

The company is in a business, which is built on mutual trust. It takes years of hard work to build a reputation in the tightly guarded jewellery business and as much time is needed to penetrate the competitive export markets. According to the management, YJI does not tolerate even a single complaint on the quality of their gold products for fear of risking the good relationship enjoyed with its customers.

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At the time of writing, the Chin family - the majority shareholders of the company - are focused on making YJI the biggest gold jewellery fabricator and exporter in the country. Currently, the World Gold Council ranks YJI as one of the key players in the gold fabricating industry in Malaysia. YJI manufactures a wide range of 18K, 21K, 22K and 24K plain gold products and jewellery, including rings, earrings, pendants, bracelets, necklaces and brooches.

We have made our study based on data gathered from Ministry of International Trade and Industry, MATRADE, Department of Statistics and Customs and it is our considered opinion that the company is a leading fabricator of gold jewellery, particularly for the export market. With over 20,000 designs, it currently captures 13.5% of Malaysia's exports of gold jewellery products.

Furthermore, current available data shows that YJI is well ahead of the existing two jewellery manufacturers listed on the Kuala Lumpur Stock Exchange in successfully penetrating the overseas markets, which offer unlimited growth potential.

1.2 SCOPE OF WORK

This report is undertaken for the purpose of the public issue of YCB's shares and prepared for inclusion in the prospectus. It aims to give an independent view of the operations of YJI, which is the major contributor to the group's earnings, its competitiveness and future prospect vis-à-vis the performance of the world gold market and the local gold jewellery fabrication industry. This report also aims to enlighten the investing public on the position of YJI, with respect to the Malaysian jewellery fabrication industry.

1.3 RESEARCH METHODOLOGY

To facilitate our analysis on the gold industry and understanding of YJI's business, in-depth interviews were conducted with the management on the company's operations, manufacturing processes, export markets, profitability of business, hedging policy and future plans. Data were also gathered from the Ministry of International Trade, MATRADE, the Statistics Department, the World Gold Council, published Gold Fields Mineral Services Ltd's Gold Survey data and other sources believed to be reliable.

There are no official statistics on the total number of industry players and their production figures, as they are closely guarded by the companies for security reasons and due to the competitive nature of the industry. However, reasonable efforts were made to determine the industry structure and the makeup of the jewellery fabrication business in our attempt to position the company vis-à-vis the other local players and for a peek of its future prospects.

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1.4 ASSUMPTIONS

We have adopted a number of assumptions in preparing this independent report. It has been assumed that based on the world gold demand and supply situation and projected growth of the global economy, the general outlook of the gold industry will remain bright in the coming years.

The projections and analysis are also based on the assumption that there are no drastic changes in established national policies including laws governing gold and gold products of both the exporting and importing countries and the bilateral relations between Malaysia and its trading partners. It is also assumed that the US economic growth is recovering and that oil prices do not rise to the extent of creating another oil shock that would adversely impact the world's major economies.

2. INDUSTRY OVERVIEW

2.1 GOLD PRICE AND DEMAND

Jewellery fabricators are the major consumers of gold, annually consuming all gold that is newly mined. Gold is also used by the electronics and industrial sectors and kept for investment purposes i.e bar hoarding and bullion coin sales.

Demand for gold in 2001, according to World Gold Council, began with a 6% Year-on-Year growth in Q1, but slackened as the global economic slowdown intensified throughout the year, aggravated by the aftermath of the September 11 incident. As a result, gold demand fell 2% from the record year of 2000 to 3,235 tonnes, of which jewellery spending accounted for 2,849 tonnes and investment in gold about 395 tonnes.

India is the biggest market for gold jewellery, consuming 855 tonnes in 2001. The figure is twice that of the second largest consumer i.e the US at 409 tonnes. This is followed by Saudi Arabia (228 tonnes), China (213 tonnes) and the Gulf States (165 tonnes). The other key markets are South Korea (124 tonnes), Turkey (120 tonnes), Egypt (120 tonnes), Pakistan (119 tonnes), Japan (109 tonnes) and Indonesia (108 tonnes).

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Generally, demand for gold jewellery increases with the decline in gold prices. A depressed gold price reduces the production cost of gold jewellery, which underpins growth in demand for the commodity, both for its design and value. In Year 2001, the spot price of gold closed at USD278.9/ounce, almost unchanged from a 20-year low of USD278.57 per ounce in 1999. Studies by experts show that the current low gold prices, compared to a high of over USD400 in 1990, have taken a toll on gold exploration. Investments in the area fell by 40% in 1998 from the year earlier after five consecutive years of increases that peaked in 1997.

The lower expenditure is expected to continue with the prevailing low prices. But, as less gold is discovered and old gold mines closed down, there may be a gap between the world's future gold supply and demand, thereby creating future gold shortages.

We are of the view that notwithstanding the various governments' policies on their gold reserves, a shortage of gold would push up prices in the future. This in turn would invite new gold mining activities, which would push up supply, resulting in a more stable level for gold prices.

2.2 GOLD FABRICATION WORLDWIDE

The gold fabrication industry includes jewellery, electronics and other industrial sectors, dentistry, medal sales and coin sales. According to Gold Fields Mineral Services Ltd (GFMS), India and Italy were the top two gold fabrication centres in the world in 2000 (including the use of scrap).

Combined, they accounted for over 30% of 3,738.6 tonnes of gold fabricated worldwide. The other key fabrication centres during the year were the US, Turkey, China, Japan and Saudi Arabia & Yemen.

Based on data from the Gold Survey 2001, Malaysia was the 13th largest gold fabricator in the world in 2000, behind other Asian countries i.e South Korea, Egypt, Indonesia, Taiwan and Thailand.

In the first half of 2001, GFMS estimated that total world gold fabrication declined 3% Year-on-Year to 1,783 tonnes, with jewellery recording the largest absolute decline of 35 tonnes, while electronics demand, which is concentrated in East Asia, fell by 27 tonnes.

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2.3 GOLD VERSUS PLATINUM

It is obvious that costume jewellery cannot replace gold as a decorative item and as an asset, but it does not mean that the commodity has no competitor at all. Apart from the price of gold and consumers' buying power, gold fabrication demand is also affected by the continuing shift in consumers' tastes, in favour of white gold and gemset jewellery, particularly diamonds. At the same time, there is now a wide-range of platinum jewellery to choose from unlike a decade ago.

Platinum jewellery is made with 95% purity in Europe and the US and at least 85% in the other parts of the world. The shift towards platinum was more evident in the last five years, where the fashion trend towards platinum and diamond jewellery, apart from the economic crisis, had an adverse impact on gold jewellery fabrication demand.

Historically, the growth in demand for platinum re-started in Japan after World War 2 in the 1960s. This later spread to Europe in the 1970s, with demand growing in Italy in the 1980s and the UK in the 1990s.

However, the lustre of gold is not expected to fade in comparison to platinum, which traded at USD477.5 as at end of December 2001, compared to a high of USD640/ounce in January 2001. The metal's high in January 2001 was more than twice the price of gold in the same month of that year.

We are of the opinion that the gap between the price of gold and platinum is the main determining factor in consumers' preference for either one of the commodities. A much higher price of platinum would result in jewellery makers switching to gold - platinum's main competitor in the jewellery market.

2.4 MALAYSIA'S GOLD EXPORTS

Malaysia's gold mines are located in Pahang, Kelantan and Terengganu (refer to map on page 8). The country's total production of gold in 2000 rose by 16.7% to 4,025 kg from 3,449 kg in 1999. However, this figure is still lower than the historic high of 4,487 kg produced in 1997.

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Pahang is the top producer, accounting for 94% of the total production, via the development of the Penjom Gold Mine in Ampang Jaleh, Kuala Lipis, which produced 3,530 kg of gold in 2000. (Source: Geological Survey Malaysia Mineral Yearbook 2000).

Published data showed that gold jewellery fabrication demand in Malaysia grew by 4.4% Year-on-Year to 71 tonnes in 2000 from 68 tonnes in 1999. Thirty per cent of the output was for the domestic market and the balance for exports. Some 15 companies are believed to contribute to 57% of the total industry output.

Dubai and Hong Kong continue to be Malaysia's primary export markets for gold jewellery, with the former being the biggest destination in 2001. The main caratages exported to Dubai, which accounted for most of the export growth in that year, were 18 carat and 21/22 carat gold jewellery.

2.5 LOCAL PLAYERS AND THEIR SIZES

Of the 71 tonnes of gold jewellery fabricated in Malaysia in 2000, only about 30% are consumed locally because of the small market for them in the country in tandem with the population size. This simply shows that there is a thriving market for gold jewellery overseas and companies that position themselves for the export markets virtually have the world's market to conquer.

Generally, Malaysian consumers are unwilling to pay for workmanship, although local fabricators have the ability to create jewellery with artistic designs. This partly explains why local designs, in the past, took a back seat to the contemporary designs found overseas, except for those fabricated by established companies eyeing the export market.

However, this trend is fast changing as the younger generation keeps abreast with the latest fashion and designs, rather than buying gold for just its value. For players that had made inroads into the overseas markets, keeping up with the latest fashion is part and parcel of the fabrication business as they are able to charge their customers for both the workmanship and the intricate designs of the jewellery, enabling them to enjoy better margins.

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No exact figures are available on the number of players in the industry. However, industry experts believe that there could be more than 1,100 manufacturers who are involved in the gold jewellery fabrication business throughout the country, excluding the 200 to 300 wholesalers and about 5,000 retailers.

A breakdown of the manufacturers revealed that 15 to 20 companies capture as much as 55% of the fabrication business, while some 500-odd medium-sized companies share 35% of the market and about 600 artisans take up the remaining 10%. The medium and smaller fabricators mostly undertake sub-contracting work for the larger factories and retailers. Most of the fabrication centres are located in Penang and Kuala Lumpur.

If we consider the official tally, a MIDA Industry Brief estimated that as at May 2000, there were about 400 goldsmiths in the country. Forty-two companies had obtained jewellery-manufacturing licences, of which 30 are already in operations. Of the 42, 32 are in the manufacturing of jewellery and ornaments, reflecting the growing position of Malaysia as a gold fabrication centre in the region.

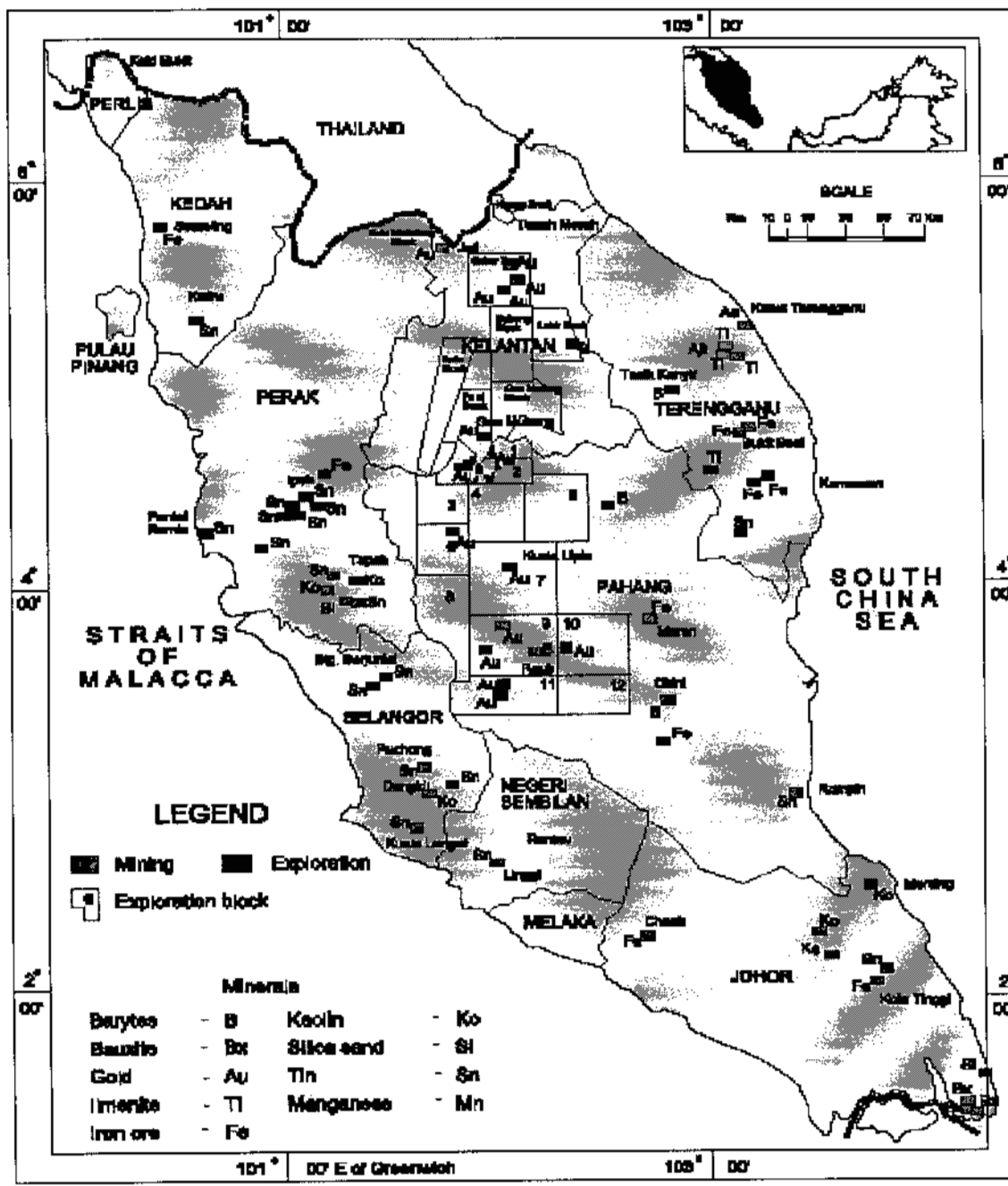
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INDEPENDENT EXPERT OPINION

MAJOR MINERAL EXPLORATION AND MINING PROJECTS IN PENINSULAR MALAYSIA



SOURCE: GEOLOGICAL SURVEY DEPARTMENT MALAYSIA: MALAYSIAN MINERALS YEARBOOK 1998

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INDEPENDENT EXPERT OPINION

3. BUSINESS OVERVIEW

3.1 PAST, PRESENT AND FUTURE

YJI is basically a business founded and run by the Chin family. The business was started in 1940s, under the name of Yik On Goldsmith with only 5 workers. After more than five decades of operation and hard work, YJI has transformed itself into the current makeup of more than 150 staff. In the 1980s, YJI expanded its business to the overseas markets, especially to the Middle East countries, under the management of its current directors, Mr Chin Kok On and Mr Chin Poh On.

YJI is a pure manufacturing company, involved in gold fabrication. In 1992, Yikon constructed a manufacturing plant on 1.525-acre leasehold land in Bayan Lepas Industrial Estate in Penang to cater for the increased demand of its products. The existing factory has a production capacity of 7,200 kg of jewellery per year.

Looking forward, YJI plans to focus on its strength as a manufacturer of jewellery products for export. The expansion of its manufacturing facilities is in the pipeline as the company plans to spend RM5.6m to construct a new factory adjacent to the existing plant and invest RM3.2m in machinery.

The construction of the factory building is expected to start in the 3rd quarter of 2002 and completed in the 4th quarter of the same year. With the commencement of the new factory, the production capacity of YJI is expected to increase by 50% to about 10,800 kg per year.

3.2 CUSTOMERS AND SUPPLIERS

Most of YJI's sales were concentrated in the Middle East in FY1998 and FY1999, accounting for 67.7% and 87.5% respectively. This is because of the huge demand for gold jewellery there and the higher margin it enjoys. However, substantial measures are being taken to re-establish exports to markets in the Asian region which were affected by the economic crisis.

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The efforts have paid off as reflected by the reduction in contribution from the Middle East to 78.6% in FY2001. YJI has successfully re-established sales to Indonesia, its third largest export market, accounting for 12.6% of turnover in FY2001. The other non-Middle-East major markets are the Philippines and Libya contributing 3.8% and 2.9% respectively. Although the bulk of YJI's products are exported to the Middle East, we believe continuous promotions in other regions would reduce the company's dependence on this market.

Three of YJI's top 10 customers, who contribute 21.1% of the total revenue, had established close business relationships with the company for more than 10 years. Another customer, with 8 years of working relationship, contributes 16.9%, while the remaining six, with relationships ranging from 2 to 4 years, account for 62.0% of its turnover. We are of the view that the supplier-customer relationship between YJI and its major customers has developed into a "partnership". While YJI's bottom-line hinges on sales to the customers, they in turn rely on the former's expertise to manufacture high-quality jewellery products with fine quality and attractive design.

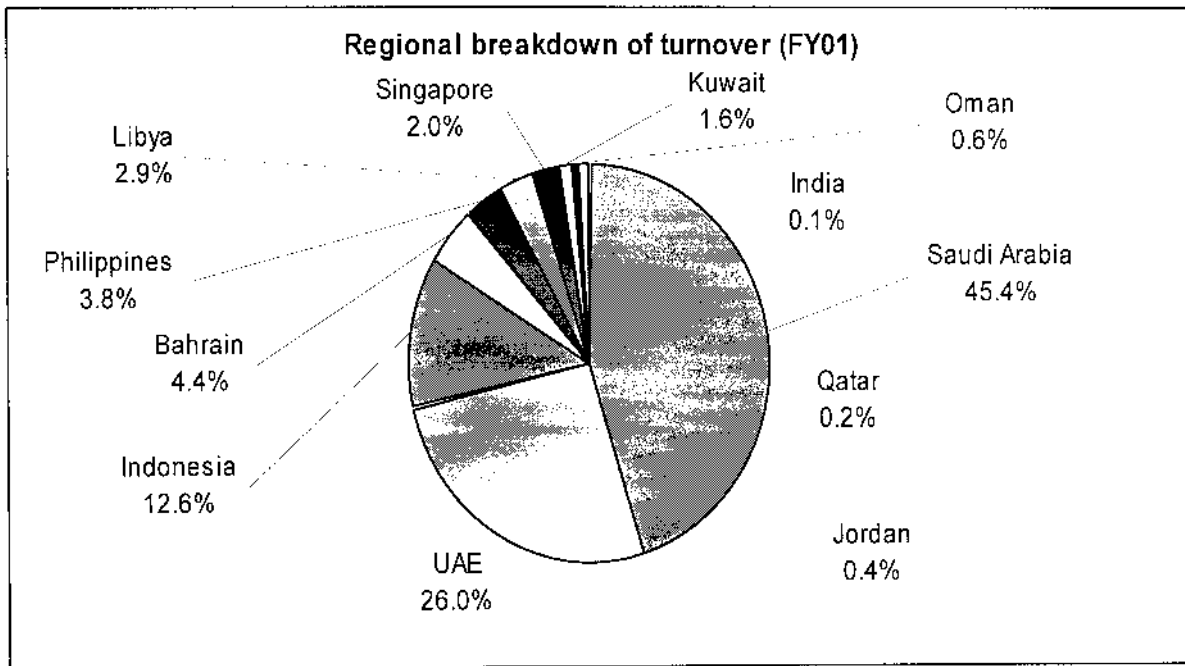
YJI sources its raw materials, mainly gold, from all over the region, including from suppliers in Penang, Singapore, Kuala Lumpur, Thailand and Hong Kong. We do not anticipate YJI to have any problem in getting continuous supply of gold bullion due to the long-established relationship it enjoys with the suppliers and its credibility as a jewellery fabricator.

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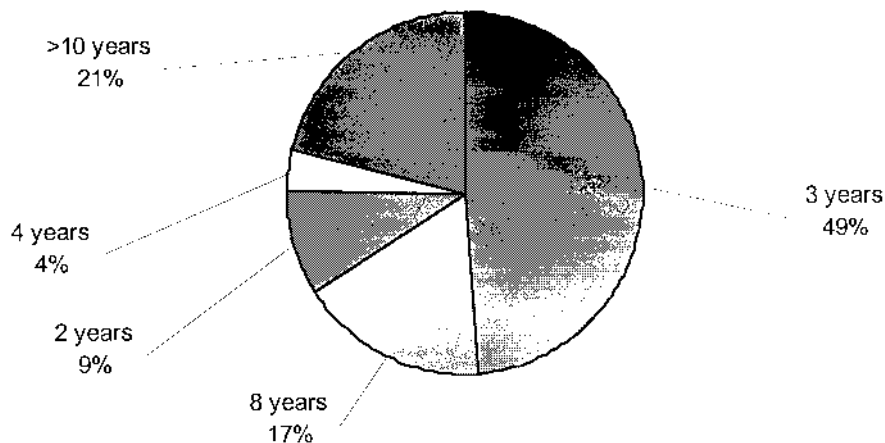
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Contributions from top ten customers in terms of years of relationship (FY October 2001)



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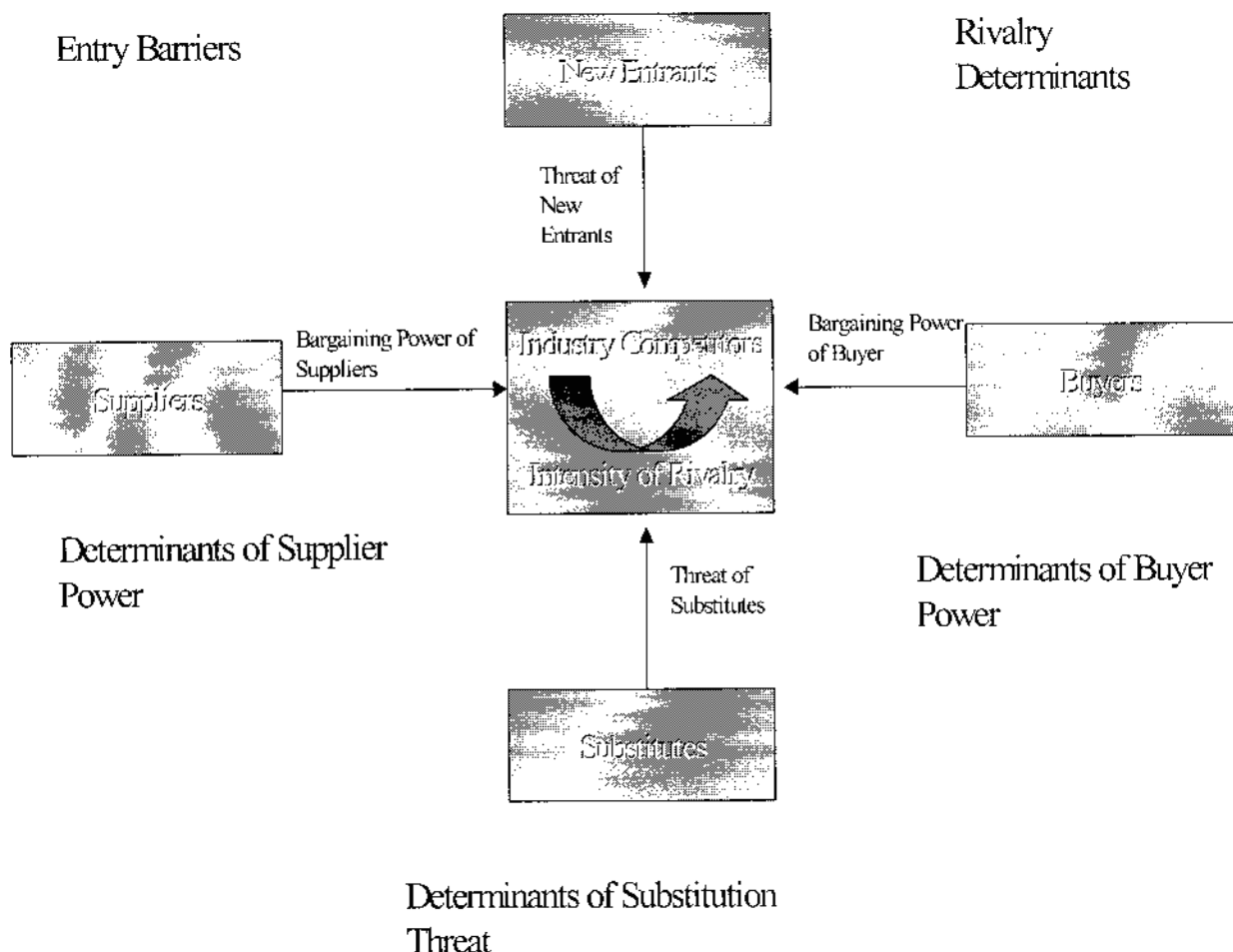


INDEPENDENT EXPERT OPINION

3.3 BUSINESS COMPETITIVE MODEL

We can apply Michael E. Porter's 5 Forces Model (see diagram below) to analyse forces acting on YJI's business and operations. The five forces acting on YJI are:

- Threat of new entrants;
- Threat of substitute products;
- Bargaining power of buyers;
- Bargaining power of suppliers; and
- Business rivalry



Source : Michael E. Porter, *Competitive Advantage* (New York: Free Press, 1985)

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3.3.1 THREAT OF NEW ENTRANTS

As a fabricator of gold jewellery, YJI faces competition from new entrants, both locally and abroad, for both its manufacturing and marketing operations. We believe YJI will seek to maintain its competitive position by emphasising on research and development to reduce production costs and come up with the latest designs. We believe new entrants will face difficulties in setting up an extensive distribution network to rival YJI. Furthermore, it will take a couple of years for them to establish the **trust** and **goodwill** with the wholesalers, distributors or retail chain operators. The possibility of new entrants to leapfrog the 50 years of experience, which the Chin family has accumulated in enhancing their technical know-how and marketing capabilities, is rather remote.

However, the potential threat of low-cost producers from **China and Thailand** upgrading the quality and productivity of their gold jewellery fabricating industry cannot be discounted. We envisage that with adequate investment in hi-tech machinery and readily available manpower, China will pose a threat to existing gold fabricators in the Asian region.

3.3.2 THREAT OF SUBSTITUTE PRODUCTS

As mentioned, gold jewellery competes with jewellery fabricated from platinum. However, a sharp increase in platinum prices would prompt jewellery-makers to switch to gold. Looking at the millenium fashion trend, major fashion and designer houses like Versace, Gucci, Ralph Lauren and Fendi's are all looking at gold in their designs, portraying an image that gold reflects wealth, haute société and savoir faire.

3.3.3 BARGAINING POWER OF BUYERS

YJI does not have any long-term contracts with its customers. The company is believed to address this issue by emphasising on product quality, multiplicity of product designs, timely delivery and mass production to achieve economies of scale. Its aggressive marketing strategies and quick response to the changing fashion trends helps to establish strategic alliances with its buyers i.e. wholesale distributors, retail chain operators and retailers.

3.3.4 BARGAINING POWER OF SUPPLIERS.

YJI also does not have any long-term contracts with its suppliers of gold bullion. The company addresses this problem by employing the advance/collect and borrow method with its suppliers to source for gold bullion. This shields the group from gold price fluctuations as any differential is passed on to the clients.

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For every order from customers, the invoice is broken into charges based on gold weight and workmanship cost. We believe YJI has managed to inculcate some degree of responsiveness among its suppliers whereby most gold bullion and other raw materials are delivered to the company almost immediately.

3.3.5 BUSINESS RIVALRY

According to industry experts, there could be as many as 1,100 local manufacturers involved in the fabrication of gold jewellery. Latest figures showed that Malaysia fabricated 71 tonnes of gold jewellery in 2000. Of the figure, 70% or 49.7 tonnes were for exports and 30% or 21.3 tonnes were for domestic consumption.

Taking into account YJI's current annual production of 6.7 tonnes of gold jewellery means that it captures 13.5% of Malaysian exports of gold jewellery products and 9.4% of the country's total gold fabrication output.

At present, there are already two jewellery manufacturers listed on the stock exchange i.e Habib Corporation Bhd and Degem Bhd. However, both companies are not in direct competition with YJI as both are primarily concentrating on the local market. In this aspect, YJI is way ahead in the export market compared to these companies.

3.4 SWOT ANALYSIS

3.4.1 STRENGTH

YJI's high standard of craftsmanship and ability to produce lightweight gold jewellery, coupled with relatively low labour costs, have enabled the company to challenge the Italians and South Koreans in the Middle East. YJI has more than 20,000 jewellery designs and thus is able to adapt to new designs or specifications requested. It is committed towards achieving total quality control and we believe that this strategy has enabled it to gain reputation as a manufacturer of near zero rejection rates. This is evident from the repeat orders made by its major clients. Being an integrated gold jewellery manufacturing company, YJI is also able to control the various processes involved, hence ensuring quality and productivity.

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3.4.2 WEAKNESS

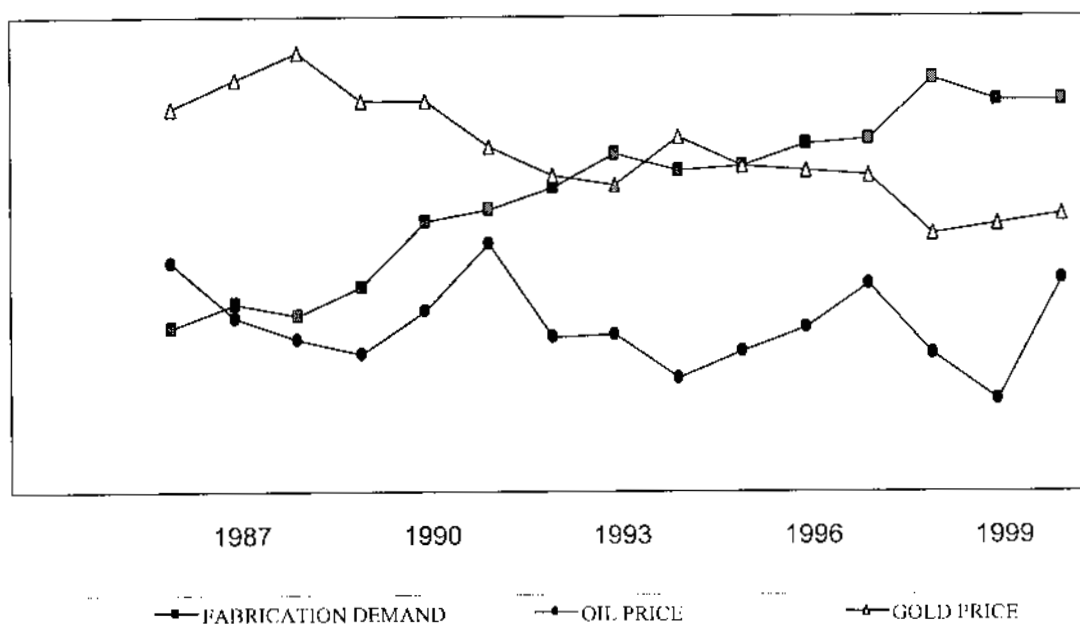
YJI cannot claim exclusivity to its designs. It does not hold any patent and trademark and has not entered into any franchise agreements. Furthermore, the group is not bound to any long-term contracts with its customers. To our knowledge, the products are made on job-order basis, based on the sales orders received from buyers, hence there is a risk that customers may turn to other gold fabricators.

3.4.3 OPPORTUNITY

We believe that gold jewellery demand will be trending upwards over the next 5 years. A stable level of oil price of above USD20 per barrel would translate into continued demand for gold jewellery. The correlation between the two can be seen on Graph 1, where a surge in oil prices in the late 80s was accompanied by a rise in demand for gold jewellery.

GRAPH 1

CHART SHOWING THE TREND LINE OF FABRICATION DEMAND VS GOLD PRICE VS OIL PRICE



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3.4.4 THREAT

The gold jewellery manufacturing industry is a competitive business, more so in the export market. We feel YJI is fully aware of the platform on which it is competing and is in a good position to shield itself from potential threats. However, any economic slowdown in the Middle East, a drastic softening of oil prices or an unanticipated increase in gold prices would affect the purchasing power in the region. Nevertheless, YJI is taking efforts to re-establish sales in markets affected by the 1997 economic crisis to diversify its earnings base.

4. FINANCIAL ANALYSIS

The turnover of YJI fell 47.0% from RM35.4m in FY1997 to RM18.8m in FY1998. However, it rebounded 7.7% in FY1999, pretty much in tandem with the trend of gold fabrication in Malaysia, which dropped 39.8% in 1998 but surged 10.3% in 1999.

FY2000 was a bumper year for YJI as the company registered sizzling growth in turnover and Profit After Tax (PAT). Turnover rose by 86.6% to RM37.7m, higher than the figure achieved in FY1999. Concomitantly, despite a higher tax of RM1.75m vis-à-vis a mere RM0.14m in FY1999, the PAT jumped by 146.1% to RM4.2m.

YJI turned in a strong performance again in FY2001, with its revenue jumping by a whopping 53.2% Year-on-Year to RM57.7m from RM37.7m. This was mainly fueled by the 67.3% increase in sale of gold to RM36.6m and 33.7% in workmanship charges to RM21.1m. As such, the PAT surged by 61.4% Year-on-Year to RM6.7m from RM4.2m, widening the net profit margin to 11.7% from 11.0% in FY2000. Its Return on Equity (ROE) and Return of Asset (ROA) also improved to a commendable level of 26.6% and 16.7% in FY2001.

The surge in turnover and PAT, to a larger extent, emanated from the increase in sales volume to existing and new customers. Higher sales were recorded in the cubic zirconia products especially the white gold category and other new-concept products such as three-color products. The contribution from these products has strengthened YJI's bottom-line as they command higher profit margins.

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Looking at the Balance Sheet, YJI kept minimal cash, with the cash and cash equivalents only comprising 5.4% of Current Assets in FY2001. Bulk of the Current Assets were in debtors, which accounted for 94.2% of the Current Assets in FY2001. There is no alarm as the high debtors was to fuel YJI's business as a gold fabricator. Furthermore, most of YJI's major customers are in overseas; hence the payment cycle could be longer. The gearing ratio was comfortable at 38.2%.

In FY2001, YJI maintained a healthy cash flow at the operating level, with positive net cash generated from operating activities. However, the purchase of plant and equipment and dividend payments had imposed pressure on the company's cash flow position. Nevertheless, if we take into account the Fixed Deposit, the cash position of YJI is considered satisfactory. Furthermore, the proceeds from the listing of YCB would strengthen the liquidity position of the company.

5. FUTURE OUTLOOK AND CONCLUSION

Currently, about 80% of the world demand for gold goes into jewellery. The remaining 20% are for industrial use and bar hoarding of gold bullion for investment purposes. Gold, either in bullion or jewellery form, is a prudent investment as it still represents the ultimate form of payment in the world because gold is a good hedge against currency devaluation and inflation.

Furthermore, an ounce of gold can always be turned into cash anywhere in the world. Historical records indicated that the first gold coins were made since 560 BC, paving the way for gold to play a dominant role in international currency and financial markets.

We believe people who invest in gold or gold jewellery will survive during any economic crisis, currency devaluation or a stock market meltdown. For instance, in Indonesia during the 1997 economic crisis, the rural poor sold their gold jewellery to weather the storm. The future outlook of gold will always remain bright. In spite of efforts to demonetize gold, the commodity has managed to retain its universal economic value and many countries still hold gold in their external reserves. In fact, gold is still the second largest reserve asset after the US dollar.

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With the increase in standard of living, there is an increasing trend that gold jewellery is being used as fashion accessories for ladies and men and also given as gifts to friends and family members. Based on this, the future of the fabrication industry is expected to be as bright as gold, provided that manufacturers are up-to-date with the latest designs and manufacturing techniques. Under the present economic condition, stable gold prices will be good for jewellery fabricators because they would not be exposed to price risks or face the prospects of rising gold prices dampening the price-elastic demand (see graph on page 16).

Looking ahead, customers will always assess the merit of each manufacturer on their **product, design and marketing techniques**. Thus, YJI must be able to meet these requirements at all times to continuously prosper in this line of business. Currently, YJI does not appear to have any concrete plan to diversify downstream by operating its own retail outlets locally or overseas and establishing its own brand name. This could be a setback to the company as it is not advisable to purely concentrate on manufacturing. Furthermore, marketing of the jewellery products will give them total control of the whole business spectrum, right from R&D, design and production to marketing. Although retailing of gold jewellery will put YJI in direct competition with its wholesalers and retailers and may affect its long-standing relationship with them, this is an area, which YJI may want to consider pursuing in the long run.

As jewellery manufacturers make money from the cost of fabrication, and not from the sale of gold, YJI must have the technological or labour advantage to compete with other manufacturers. The company must command economies of scale, easy market access and have the flexibility to initiate the latest designs to remain competitive and ensure continuous job orders. YJI, we believe, has a bright future if all those above can be maintained.

FOR MIDF SISMA SECURITIES SDN BHD

DATIN MARIAM YUSOF
Executive Director, Dealing

A HALIM A WAHAB
Head of Research

Dated 15th April, 2002

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15.0 **DIRECTORS' REPORT**

(Prepared for inclusion in this Prospectus)

YIKON CORPORATION BHD (527272-V)

PLOT 36, BAYAN LEPAS INDUSTRIAL ESTATE,
PHASE 4, 11900 PENANG, MALAYSIA.
TEL NO. : 604-6429888 FAX NO. : 604-6429988

Registered Office:
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

16 April 2002

The Shareholders
Yikon Corporation Bhd

Dear Sirs/Madams,

On behalf of the Board of Directors of Yikon Corporation Bhd ("YCB" or the "Company"), I report after due enquiry that during the period from 31 October 2001 (being the date to which the last audited financial statements of YCB and its subsidiary companies have been made up) to 16 April 2002 (being a date not earlier than 14 days before the registration of this Prospectus), that:-

- (a) the business of the Company and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of the Company and its subsidiary companies which have materially and adversely affected the business and operations or the value of the assets of the Company or any of its subsidiary companies;
- (c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the course of business;
- (d) saved as disclosed in the Section 11.3.3 and proforma consolidated balance sheets in Section 11.9 of this Prospectus, there are no contingent liabilities by reason of any guarantee or indemnity given by the Company or any of its subsidiary companies; and
- (e) save as disclosed in the proforma consolidated balance sheets in Section 11.9 and in the Accountants' Report in Section 12.0 of this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited financial statements of the Company and its subsidiary companies.

Yours faithfully,
For and on behalf of the Board of
YIKON CORPORATION BHD


CHIN KOK ON
Managing Director