(Prepared for inclusion in this Prospectus)

KPMG

Kein Hing International Berhad
Accountants' Report
13 September 2004

The Board of Directors
Kein Hing International Berhad
Lot 1863, Jalan Kolej
43300 Seri Kembangan
Selangor Darul Ehsan

13 September 2004

Dear Sirs

Kein Hing International Berhad
Accountants' Report

This report has been prepared by Messrs. KPMG, an approved company auditor, for inclusion in the Prospectus of Kein Hing International Berhad ("KHIB") dated 17 September in connection with the restructuring and subsequent listing of KHIB on the Second Board of the Bursa Malaysia Securities Berhad ("Bursa Securities").

1 General information

1.1 Background

KHIB was incorporated in Malaysia on 23 May 2003 as a private limited company under the Companies Act, 1965. The Company converted its status to a public limited company on 22 August 2003 for the purpose of the listing exercise as detailed in Note 1.3.

The principal activity of KHIB is that of investment holding.

1.2 Share capital

As at the date of incorporation, KHIB's authorised share capital was RM100,000 consisting of 200,000 ordinary shares of RM0.50 each. At that date, its issued and paid-up share capital was RM1 consisting of 2 subscribers' shares of RM0.50 each.

The authorised share capital was increased from RM100,000 to RM50,000,000 comprising 100,000,000 new ordinary shares of RM0.50 each on 16 July 2004.

1.2 Share capital (continued)

The details of the changes in the issued and fully paid-up share capital of KHIB pursuant to the restructuring scheme as set out in Paragraph 1.3 are as follows:

Number of ordinary shares	Par value per ordinary share RM	Purpose	Total issued and paid-up share capital RM
2	0.50	Subscribers' shares	1
91,199,998	0.50	Acquisition of Kein Hing Industry Sdn. Bhd. ("KHI")	45,600,000
7,800,000	0.50	Public issue	49,500,000

Upon completion of the public issue, the issued and paid-up share capital of KHIB would be increased to RM49,500,000 comprising 99,000,000 ordinary shares of RM0.50 each.

1.3 Restructuring scheme

In conjunction with the listing of and quotation for the entire issued and paid-up share capital of KHIB on the Second Board of the Bursa Securities, KHIB undertook the following restructuring scheme:

1.3.1 Dividend

Declaration of a tax-exempt dividend of RM5,500,000 by KHI to the shareholders of KHI.

1.3.2 Initial acquisition of S&Y Metal Stamping Sdn Bhd ("S&Y")

Initial acquisition by KHI of 14% of the issued and fully paid-up share capital of S&Y comprising 28,000 ordinary shares of RM1.00 each in S&Y from Sim Kooi Wah, Yap Kim Hok and Chan Jun Fai for a purchase consideration of RM246,400 satisfied by cash.

1.3.3 Acquisition of KHI

Acquisition by KHIB of the entire issued and fully paid-up share capital of KHI comprising 4,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM48,672,315 fully satisfied by the issuance of 91,199,998 new ordinary shares of RM0.50 each at an issuance price of RM0.53 each in KHIB.

1.3.4 Initial acquisition of Kein Hing Appliances Sdn. Bhd. ("KHA")

Initial acquisition by KHIB of 17% of the issued and fully paid-up share capital of KHA comprising 85,001 ordinary shares of RM1.00 each for a purchase consideration of RM67,947 satisfied by cash.

1.3.5 Acquisition of KHA

Further acquisition by KHIB of 66% of the issued and fully paid-up share capital of KHA comprising 329,999 ordinary shares of RM1.00 each for a purchase consideration of RM263,795 satisfied by cash.

1.3.6 Acquisition of Kein Hing Muramoto (Vietnam) Co. Ltd ("KHMV")

Acquisition by KHIB of 51% of the legal capital of KHMV for a purchase consideration of USD612,000 satisfied by cash.

1.3.7 Acquisition of Hirotako Kein Hing Sdn. Bhd. ("HKH")

Acquisition by KHIB of 49% of the issued and fully paid-up share capital of HKH comprising 490,000 ordinary shares of RM1.00 each for a purchase consideration of RM1.00 satisfied by cash.

1.3.8 Offer for sale and public issue

i) Offer for sale of 7,800,000 ordinary shares of RM0.50 each ("KHIB Shares") at an offer price of RM0.65 per KHIB Share comprising 3,800,000 KHIB Shares to eligible Directors and employees of KHIB and its subsidiaries and 4,000,000 KHIB Shares by way of private placement to identified investors; and

ii) Public issue of 7,800,000 new KHIB Shares of RM0.50 each at an issue price of RM0.65 per KHIB Share comprising 6,000,000 KHIB Shares to the Malaysian public and 1,800,000 KHIB Shares by way of private placement to identified investors.

The above scheme was approved by (where applicable) the:
i) Securities Commission on 7 May 2004;
ii) Ministry of International Trade and Industry on 31 October 2003 and 19 January 2004; and
iii) Bank Negara Malaysia on 16 June 2004.

1.4 Information on subsidiaries and associates

Company	Date and place of incorporation	Share capital Authorised RM	Issued and paid-up RM	Effective interest %	Principal activities
Subsidiaries of KHIB					
KHI	14.3.1981 Malaysia	5,000,000	4,000,000	100	Sheet metal forming, precision machining and components assembly.
KHA	28.9.2001 Malaysia	500,000	500,000	83	Trading in electrical and electronic products and home appliances.
KHMV	28.8.2003 Vietnam	USD4,000,000*	USD1,200,000**	51	Sheet metal forming, precision machining and components assembly.
Associates					
HKH	7.8.1998 Malaysia	1,000,000	1,000,000	49	Manufacturer of car components.
S&Y	1.11.1994 Malaysia	500,000	200,000	28	Precision metal stamping.

* Refers to invested capital
** Refers to legal capital

1.5 Basis of accounting and accounting policies

This Report is based on audited financial statements, save for KHMV which is based on management accounts, which have been prepared in accordance with applicable Approved Accounting Standards in Malaysia issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with the accounting policies normally adopted by KHIB and its subsidiaries.

1.6 Financial statements and auditors

The present financial year end of KHIB, KHI, and KHA is 30 April. The financial statements of KHI and KHA for the years ended 30 April 2000 to 2002 were audited by another firm of chartered accountants. We are the auditors for KHI and KHA for the years ended 30 April 2003 and 2004, and KHIB for the period ended 30 April 2004. KHMV was incorporated on 28 August 2003 and has yet to prepare its first set of audited financial statements.

The auditors' reports of KHIB, KHI and KHA for the years under review were not subject to any qualification.

Reclassification of balances and prior year adjustment

i) Reclassification of balances
Included in other payables and accruals of KHI are hire purchase liabilities which have now been reclassified to conform with current presentation.

	As stated in audited financial statements RM'000	Effects of reclassification RM'000	As restated RM'000
Other payables and accruals			
- 2000	(7,190)	5,224	(1,966)
- 2001	(6,296)	4,739	(1,557)
- 2002	(4,273)	2,874	(1,399)
Hire purchase (current)			
- 2000	-	(5,224)	(5,224)
- 2001	-	(4,739)	(4,739)
- 2002	-	(2,874)	(2,874)

1.6 Financial statements and auditors (continued)

ii) Prior year adjustment

The prior year adjustment relates to the effect of the early adoption of MASB 25, Income Taxes by KHI during the financial year ended 30 April 2002. The change in accounting policy, which was applied retrospectively, has the following effects on the financial statements of KHI.

	As stated in audited financial statements RM'000	Effects of change in policy RM'000	As restated RM'000
2001			
Balance sheet			
Reserves			
- Revaluation reserve	3,386	(139)	3,247
- Retained profits	32,568	(3,931)	28,637
Deferred taxation	1,483	4,070	5,553
2001			
Income statement			
Taxation	(1,140)	(510)	(1,650)
Profit after taxation	7,415	(510)	6,905
2000			
Balance sheet			
Reserves			
- Revaluation reserve	3,386	(139)	3,247
- Retained profits	27,152	(3,421)	23,731
Deferred taxation	883	3,560	4,443
Income statement			
Taxation	(1,487)	(392)	(1,879)
Profit after taxation	5,859	(392)	5,467

1.7 Dividends

The Company has not paid or declared any dividends since its incorporation.

No dividends have been declared or paid by the subsidiaries during the relevant periods/years under review except for KHI. Details of the dividends declared and paid by KHI for the last five relevant years under review are as follows:

Year ended	Gross dividend rate %	Dividends declared/paid RM'000
KHI		
30 April 2000	-	-
30 April 2001	50.0	2,000
30 April 2002	50.0	2,000
30 April 2003	-	-
30 April 2004	137.5	5,500

2 Financial performance

2.1 Proforma consolidated results

We set out below the summarised proforma consolidated results of the KHIB Group for the past five (5) financial years ended 30 April 2000 to 2004. The proforma consolidated results are prepared for illustrative purposes only and are based on the audited financial statements of KHIB, KHI and KHA, and the management accounts of KHMV on the assumption that the KHIB Group under the restructuring scheme, as detailed in Note 1.3, was effective throughout the years under review. The following results are to be read in conjunction with the notes thereto:

	<---30 April--->				
	2000 RM'000	**2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Revenue	72,282	83,774	78,018	90,202	98,417
Profit before depreciation and interest	12,027	14,056	16,385	16,567	16,469
Depreciation	(3,253)	(4,003)	(5,359)	(6,109)	(6,833)
Interest expense	(1,541)	(1,637)	(2,440)	(2,335)	(1,775)
Interest income	113	139	95	129	85
Profit before taxation	7,346	8,555	8,681	8,252	7,946
Taxation	(1,879)	(1,650)	(1,846)	(1,681)	(1,856)
Profit after taxation	5,467	6,905	6,835	6,571	6,090
Minority interest	-	-	-	6	89
Profit attributable to shareholders	5,467	6,905	6,835	6,577	6,179
Number of ordinary shares of RM1.00 each in issue ('000)	91,200	91,200	91,200	91,200	91,200
Earnings per share (RM)					
- Gross	0.08	0.09	0.10	0.09	0.09
- Net	0.06	0.08	0.07	0.07	0.07

2.2 Notes to the proforma consolidated results

i) The gross earnings per share is computed based on the profit before taxation, while the net earnings per share is calculated based on the profit attributable to shareholders over the assumed number of ordinary shares in issue.

ii) The effective tax rate of the proforma KHIB Group for the financial years under review were consistently lower than the prima facie tax rate due to availability of reinvestment allowance in a subsidiary.

iii) Included in the profit after taxation for the year ended 30 April 2004 was an additional tax assessment for prior years of approximately RM620,000 and a tax penalty of RM680,000 of a subsidiary.

There were no extraordinary or exceptional items for the financial years under review.

iv) The proforma consolidated results incorporate the financial statements of KHIB and all its subsidiaries and associates made up to the end of the financial year. All intercompany balances and transactions have been eliminated on consolidation.

2.3 The proforma KHIB Group consolidated balance sheets

As the purchase consideration for the acquisitions was calculated on the net tangible assets based on the audited financial statements of the subsidiaries as at 30 April 2003, it is therefore impractical to present proforma balance sheets of the KHIB Group throughout the years under review. Accordingly, the balance sheet of the Proforma KHIB Group has been presented by way of proforma statement of assets and liabilities as at 30 April 2004 as shown in Section 3 of this Report.

2.4 KHIB

2.4.1 Summary of results

	Period from 23 May 2003 to 30 April 2004 RM'000
Revenue	-
Loss before taxation	(4)
Taxation	-
Loss after taxation	(4)
Number of ordinary shares of RM0.50 each in issue	2
Loss per share (RM'000)	
- Gross	(2.18)*
- Net	(2.18)*

* *Annualised*

2.4.2 Summarised balance sheet

	2004 RM'000
Current assets	586
Less: Current liabilities	(590)
Net current liabilities	(4)
	(4)
Financed by:	
Share capital	**
Accumulated loss	(4)
Deficit in shareholders' funds	(4)
Number of ordinary shares of RM0.50 each in issue	2
Net tangible assets ("NTA") (RM'000)	(4)
NTA per ordinary share (RM'000)	(2.00)

** *RM1.00*

2.5 KHI

2.5.1 Summary of results

	<------------ 30 April ------------>				
	2000 RM'000	**2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Revenue	72,282	83,774	78,018	88,150	96,547
Profit before depreciation and interest	12,027	14,056	16,385	16,546	16,379
Depreciation	(3,253)	(4,003)	(5,359)	(6,048)	(6,739)
Interest expense	(1,541)	(1,637)	(2,440)	(2,334)	(1,772)
Interest income	113	139	95	129	85
Profit before taxation	7,346	8,555	8,681	8,293	7,953
Taxation	(1,879)	(1,650)	(1,846)	(1,630)	(1,790)
Profit after taxation	5,467	6,905	6,835	6,663	6,163
Number of ordinary shares of RM1.00 each in issue ('000)	4,000	4,000	4,000	4,000	4,000
Earnings per share (RM)					
- Gross	1.84	2.14	2.17	2.07	1.99
- Net	1.37	1.73	1.71	1.67	1.54

Notes:

i) The Company's effective tax rate was consistently lower than the prima facie tax rate due to the availability of reinvestment allowances.

ii) Included in profit after taxation of KHI for the year ended 30 April 2004 was an additional tax assessment for prior years of approximately RM620,000 and a tax penalty of RM680,000.

There were no extraordinary or exceptional items for the financial years under review.

2.5.2 Summarised balance sheets

	<----- 30 April	-----	-----	-----	----->
	2000	**2001**	**2002**	**2003**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment	42,701	56,715	61,204	60,490	70,698
Investment in subsidiary	-	-	330	330	2,159
Amount due from subsidiary	-	-	-	-	506
Investment in associate	-	-	-	-	311
Other investments	337	635	641	634	639
Current assets	20,523	22,667	25,390	31,348	31,188
Less: Current liabilities	(20,419)	(24,680)	(16,857)	(22,614)	(25,228)
Net current assets / (liabilities)	104	(2,013)	8,533	8,734	5,960
	43,142	55,337	70,708	70,188	80,273
Financed by:					
Share capital	4,000	4,000	4,000	4,000	4,000
Revaluation reserve	3,386	3,247	1,900	1,900	1,674
Proposed dividend	-	2,000	2,000	-	-
Retained profit	27,152	28,636	36,176	42,838	49,001
Shareholder's funds	34,538	37,883	44,076	48,738	54,675
Deferred and long term liabilities	8,604	17,454	26,632	21,450	25,598
	43,142	55,337	70,708	70,188	80,273
Number of ordinary shares of RM1.00 each in issue at year end	4,000	4,000	4,000	4,000	4,000
Net tangible assets ("NTA") (RM'000)	34,538	37,883	44,076	48,738	54,675
NTA per ordinary share (RM)	8.63	9.47	11.02	12.18	13.67

2.6 KHA

2.6.1 Summary of results

	Period from 28 September 2001 to 30 April 2002 RM'000	Year ended 30 April 2003 RM'000	Year ended 30 April 2004 RM'000
Revenue	1,005	2,294	2,052
(Loss)/Profit before depreciation and interest	(44)	27	22
Depreciation	(21)	(61)	(69)
Interest expense	-	(1)	(1)
Loss before taxation	(65)	(35)	(48)
Taxation	-	-	-
Loss after taxation	(65)	(35)	(48)
Number of ordinary shares of RM1.00 each in issue ('000)	500	500	500
Loss per share (RM)			
- Gross	(0.26)*	(0.07)	(0.10)
- Net	(0.26)*	(0.07)	(0.10)

* *Annualised*

Notes:

i) KHA was incorporated on 28 September 2001 and commenced operations in 2002.

ii) There was no provision for tax in the financial statements for the financial period/years as KHA was in a tax loss position.

iii) There were no extraordinary or exceptional items for the financial period/years under review.

2.6.2 Summarised balance sheets

	30 April 2002 RM'000	30 April 2003 RM'000	30 April 2004 RM'000
Property, plant and equipment	224	250	181
Current assets	578	613	759
Less: Current liabilities	(367)	(437)	(148)
Net current assets	211	176	611
	435	426	792
Financed by:			
Share capital	500	500	500
Accumulated loss	(65)	(100)	(148)
Shareholders' funds	435	400	352
Long term liabilities			
Hire purchase creditors	-	26	10
Amount due to holding company	-	-	430
	435	426	792
Number of ordinary shares of RM1.00 each in issue at year end ('000)	500	500	500
Net tangible assets ("NTA") (RM'000)	435	400	352
NTA per ordinary share (RM)	0.87	0.80	0.70

2.7 KHMV

2.7.1 Summary of results

	Period from 28 August 2003 to 30 April 2004 RM'000
Revenue	-
Loss before depreciation	(139)
Depreciation	(24)
Interest expense	(2)
Loss before taxation	(165)
Taxation	-
Loss after taxation	(165)
Legal capital ('000)	3,586

2.7.2 Summarised balance sheet

	2004 RM'000
Property, plant and equipment	1,090
Current assets	3,368
Less: Current liabilities	(1,037)
Net current assets	2,331
	3,421
Financed by:	
Share capital	3,586
Accumulated loss	(165)
Shareholders' funds	3,421
Legal capital ('000)	3,586
Net tangible assets ("NTA") (RM'000)	3,421

3 Proforma statement of assets and liabilities

The following statement of assets and liabilities of KHIB and Proforma KHIB Group as at 30 April 2004 are prepared for illustrative purposes only and are based on the audited financial statements of KHIB and its subsidiaries as at 30 April 2004, on the basis that the KHIB Group under the restructuring scheme as detailed in Note 1.3, before the public issue and utilisation of proceeds, had been effected on 30 April 2004. These proforma statements should be read in conjunction with the notes thereto:

	Note	Company RM'000	Proforma Group RM'000
Property, plant and equipment	3.2	-	71,969
Investment in associates	3.3	-	725
Other investments	3.4	-	616
Current assets			
Inventories	3.5	-	11,515
Trade receivables		-	14,706
Other receivables		586	3,522
Cash and cash equivalents	3.6	*	2,805
		586	32,548
Current liabilities			
Trade payables		-	9,701
Other payables and accruals	3.7	590	3,317
Borrowings	3.8	-	15,086
Provision for taxation		-	841
		590	28,945
Net current (liabilities)/assets		(4)	3,603
		(4)	76,913
FINANCED BY:			
Share capital	3.9	*	45,600
Share premium	3.10	-	3,072
Reserves		(4)	679
(Deficit in)/Shareholders' funds		(4)	49,351
Minority shareholders' interest	3.11	-	2,180
Long term and deferred liabilities			
Borrowings	3.8	-	17,235
Deferred taxation		-	8,147
		(4)	76,913
Net tangible assets per share (RM)		(2,000)	0.54

* *RM1.00*

3.1 Notes to the statement of assets and liabilities

3.1.1 Significant accounting policies

The following accounting policies are adopted by the Proforma KHIB Group and the Company and are consistent with those adopted in previous years except for the adoption of the following:

(i) MASB 27, Borrowing costs which is applied prospectively; and

(ii) MASB 29, Employee benefits which is applied prospectively.

The adoption of these standards has no financial impact on the financial statements.

3.1.2 Basis of accounting

The financial statements of the Proforma KHIB Group and the Company have been prepared on the historical cost basis except as disclosed in the notes to this statement and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

3.1.3 Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the proforma consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Proforma KHIB Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

3.1.4 Associates

Associates are those enterprises in which the Proforma KHIB Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Proforma KHIB Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Proforma KHIB Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

3.1.5 Property, plant and equipment ("PPE")

Building under construction is stated at cost and freehold land is stated at cost/valuation. All other property, plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses.

The Proforma KHIB Group revalues its properties comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets are expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

Depreciation

Building under construction and freehold land are not amortised. Leasehold land is amortised in equal installments over the period of the lease of 99 years. The straight line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Freehold and leasehold buildings	2%
Plant and machinery	7% - 10%
Electrical installations and factory equipment	10%
Office equipment, furniture and fittings and renovation	5% - 10%
Motor vehicles	10%

3.1.6 Intangible asset

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment loss.

Goodwill is amortised from the date of initial recognition over its estimated useful life of 10 years.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

3.1.7 Investments

Long term investments other than in subsidiary and associate are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

Long term investments in subsidiary and associate are stated at cost in the Company, less impairment loss where applicable.

3.1.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials is determined on the first-in first-out (FIFO) method and includes all direct expenditure incurred in bringing the inventories to their present location and condition. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

3.1.9 Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

3.1.10 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

3.1.11 Impairment

The carrying amount of the Proforma KHIB Group's assets, other than inventory and financial assets (other than investments in subsidiaries and associate), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

3.1.12 Liabilities

Borrowings and trade and other payables are stated at cost.

3.1.13 Accounting for hire purchase

Property, plant and equipment held under hire purchase are capitalised and depreciated over their estimated useful lives, and the corresponding obligation relating to the remaining capital payments are treated as liability.

3.1.14 Employee benefits

(i) Defined contribution plan

Obligations for contribution to defined contribution plan are recognised as an expense in the income statement as incurred.

3.1.14 Employee benefits (continued)

(ii) ***Short term benefits***

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Proforma KHIB Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

3.1.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

3.1.16 Foreign currency

(i) ***Foreign currency transactions***

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

3.1.16 Foreign currency (continued)

(ii) Financial statements of foreign operations

The Proforma KHIB Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

1USD	RM3.80	(2002:	1USD	RM3.80)
1SGD	RM2.25	(2002:	1SGD	RM2.12)
100Yen	RM35.93	(2002:	100Yen	RM33.76)

3.1.17 Revenue

i) Goods sold

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

3.1.18 Expenses

Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of hire purchase payments are recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

3.2 Property, plant and equipment

Proforma Group At 30 April 2004	**Cost/Valuation RM'000**	**Accumulated depreciation RM'000**	**Net book value RM'000**
Freehold land	7,592	-	7,592
Freehold buildings	6,911	1,078	5,833
Leasehold land	2,096	49	2,047
Leasehold buildings	3,494	301	3,193
Plant and machinery, electrical installations and factory equipment	68,414	30,630	37,784
Office equipment, furniture and fittings and renovation	7,089	3,401	3,688
Motor vehicles	7,699	2,919	4,780
Building under construction	7,052	-	7,052
	110,347	38,378	71,969

3.2.1 Security

Certain property, plant and equipment of the Proforma KHIB Group costing RM44,754,037 are charged to banks as security for borrowings.

3.2.2 Assets under hire purchase

The net book values of property, plant and equipment acquired under hire purchase arrangements are as follows:

	Proforma KHIB Group RM'000
Plant and machinery, electrical installations and factory equipment	7,944
Motor vehicles	3,366
Office equipment, furniture and fittings and renovation	181
	11,491

3.3 Investment in associates

	Proforma Group RM'000
Unquoted shares, at cost	580
Share of post acquisition profits	145
	725
Represented by:	
Group's share of net assets	1,702
Negative goodwill on acquisition	(977)
	725

3.4 Other investments

	Proforma Group RM'000
Transferable club membership	616

3.5 Inventories

	Proforma Group RM'000
At cost:	
Raw materials	4,369
Work-in-progress	5,095
Manufactured inventories	2,051
	11,515

3.6 Cash and cash equivalents

	Company RM'000	Proforma Group RM'000
Cash and bank balances	*	*
Acquisition of KHI, KHA and KHMV	-	2,805
	*	2,805

Included in cash and cash equivalents acquired from KHI was deposits placed with licensed banks amounting to RM85,400 which was pledged for credit facilities granted to KHI.

* *Represents RM1.00.*

3.7 Other payables and accruals

	Company RM'000	Proforma Group RM'000
Other payables and accruals	590	3,249
Amount owing to Directors	-	68
	590	3,317

The amount owing to Directors is unsecured, interest free and has no fixed terms of repayment.

Included in other payables and accruals is an amount of RM1,031,000 owing to directors of a subsidiary.

3.8 Borrowings

	Proforma Group RM'000
Current:	
Bills payables (secured)	1,653
Bank overdrafts (secured)	4,333
Hire purchase liabilities	2,752
Term loans (secured)	5,520
Bankers' acceptances (secured)	828
	15,086
Non-current:	
Hire purchase liabilities	3,450
Term loans (secured)	13,785
	17,235
	32,321

3.8.1 Terms and debt repayment schedule

Proforma Group At 30 April 2004	Total RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	After 5 years RM'000
Bills payables					
- variable at 1.5% above the bank's Base Lending Rate ("BLR") and 0.5% above inter-bank offer rate	1,653	1,653	-	-	-
Bank overdrafts					
- variable at 1.3% to 1.5% above the bank's Base Lending Rate ("BLR")	4,333	4,333	-	-	-
Hire purchase liabilities					
- flat at 3.3% to 6.0% per annum ("pa")	6,202	2,752	1,822	1,628	-
Secured term loans					
- fixed at 6.3% to 9.0% pa	7,047	3,169	2,654	1,224	-
- variable at 1.0% to 1.8% above BLR	12,258	2,351	2,082	3,586	4,239
Bankers' acceptances					
- variable at 1% above Internal Banking Rate (IBR)	828	828	-	-	-
	32,321	15,086	6,558	6,438	4,239

3.8.2 Bills payables and bankers' acceptances

Bills payables and bankers' acceptances are secured by fixed and floating charges over the subsidiary's fixed and other assets and guaranteed by a director of a subsidiary.

3.8.3 Bank overdrafts

The bank overdrafts are secured by the following:

i) fixed charge over the landed properties of a subsidiary
ii) a debenture covering the first fixed and floating charge over the present and future assets of a subsidiary
iii) personal guarantee by directors of a subsidiary

3.8.4 Term loans

The term loans are secured by the following:

i) personal guarantee by directors of a subsidiary
ii) fixed charge over the property, plant and equipment of a subsidiary
iii) fixed deposits pledged by a subsidiary
iv) first party second legal charge over the landed property of a subsidiary
v) debenture and specific debenture covering the first fixed and floating charge over the present and future assets of a subsidiary

3.8.5 Hire purchase liabilities

Hire purchase liabilities are payable as follows:

	Payments RM'000	Interest RM'000	Principal RM'000
Less than one year	3,129	377	2,752
Between one and two years	2,088	266	1,822
Between two and five years	1,858	230	1,628
Over five years	-	-	-
	7,075	873	6,202

3.9 Share capital

	Company RM'000	Proforma Group RM'000
Authorised	100	50,000
Issued and fully paid		
At 30 April 2004	*	*
91,199,998 new ordinary shares at an issue price of RM0.53 per ordinary shares for the acquisition of the entire issued and paid-up capital of KHI	-	45,600
	*	45,600

* *RM1.00*

3.10 Share premium

	Proforma Group RM'000
Arising from:	
Acquisition of KHI	3,072

3.11 Minority shareholders' interests

This represents the minority shareholders' interests in Class B ordinary shares of the subsidiary. The Class B ordinary shares rank pari passu in all respects to the other ordinary shares of the subsidiary except the holder of Class B ordinary shares does not have voting rights in meetings.

Minority shareholders' interests consists of the minority shareholders' proportion of share capital and reserves of the subsidiaries, net of their share of subsidiaries goodwill on consolidation and amortisation of goodwill charged to the minority shareholders.

3.12 Financial instruments

Financial risk management objectives and policies

The Proforma KHIB Group is exposed to a variety of financial risks, including foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk. The Proforma KHIB Group and the Company's overall financial risk management objective is to ensure that the Proforma KHIB Group creates value for its shareholders. Financial risk management is carried out through risk reviews, internal control system and adherence to financial risk management policies. The Board regularly reviews these risks and approves such policies that covers the management of these risks.

Foreign currency exchange risk

The Proforma KHIB Group is exposed to currency risk as a result of the foreign currency transactions entered into. The Proforma KHIB Group does not engage in foreign currency hedging on its foreign currency exposures but the management monitors these exposures on an ongoing basis.

Interest rate risk

The Proforma KHIB Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Proforma KHIB Group's borrowings and deposits, and is managed through the use of fixed and floating rate debts. The Proforma KHIB Group does not use derivative financial instruments to hedge its debt obligations.

3.12 Financial instruments (continued)

Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by limiting the Proforma KHIB Group's associations to business partners with good credit rating. Trade receivables are monitored on an ongoing basis.

At 30 April 2004, there were no significant concentrations of credit risk other than 69% (2003 - 43%) of trade receivables owed by four debtors. The maximum exposure to credit risk is represented by the carrying amount of receivables.

Liquidity and cash flow risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and available funds through an adequate amount of committed credit facilities. The Proforma KHIB Group aims at maintaining the flexibility in funding by keeping committed credit lines available. In addition, the Board ensures that the amount of debt maturing in any one year is not beyond the Proforma KHIB Group's means to repay and/or refinance.

The following table shows information about the Proforma KHIB Group's exposure to interest rate risk.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 30 April 2004 and the periods in which they reprice or mature, whichever is earlier.

			2004		
	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000
Proforma Group					
Financial assets					
Deposits placed with licensed banks	3.0	85	85	-	-
Financial liabilities					
Bills payables	7.3	1,653	1,653	-	-
Secured overdrafts	7.3	4,333	4,333	-	-
Secured term loans	7.3	19,305	15,427	2,654	1,224
Bankers' acceptances	4.7	828	828	-	-

3.12 Financial instruments (continued)

Fair values

Recognised financial instruments

The carrying amount of trade and other receivables, cash and cash equivalents and trade and other payables and short term borrowings approximate their fair values due to the relatively short term nature of these financial instruments.

Proforma Group	2004 Carrying value RM'000	2004 Fair value RM'000
Financial assets		
Transferable club memberships	616	701
Financial liabilities		
Secured term loans	19,305	19,305

The fair value of the secured term loans is deemed to approximate its carrying amount as there have been no significant changes in the Proforma KHIB Group's credit standing.

3.13 Commitments

	Proforma Group RM'000
Capital commitments:	
Approved and contracted for:	
Land and buildings	3,000
Machinery	1,861
Approved but not contracted for:	
Machinery	10,139
	15,000

3.14 Proforma consolidated cash flow statement

The cash flow statement of the Proforma KHIB Group set out below is based on the audited financial statements of KHIB and its subsidiaries save for KHMV, which has yet to issue its first set of audited financial statements. The proforma cash flow statement is prepared on the basis that the restructuring scheme as detailed in Note 1.3, public issue and utilisation of proceeds, had been effected on 30 April 2004.

	Proforma Group RM'000
Cash flows from operating activities	
Cash receipts from customers	96,521
Cash payments to suppliers and employees	(86,412)
Cash payments to directors	(1,523)
Taxation paid	(653)
Net cash generated from operating activities	7,933
Cash flows from investing activities	
Acquisition of shares in associates	(532)
Acquisition of property, plant and equipment ("PPE")	(18,237)
Interest received	85
Proceeds from disposal of PPE	250
Purchase of investment	(5)
Net cash used in investing activities	(18,439)
Cash flows from financing activities	
Interest paid	(1,719)
Dividend paid	(5,500)
Proceeds from borrowings	17,341
Repayments of borrowings	(11,048)
Proceeds from issuance of shares by subsidiary	2,200
Proceeds from issuance of shares	5,070
Listing expenses paid	(2,000)
Net cash generated from financing activities	4,344
Net decrease in cash and cash equivalents	(6,162)
Cash and cash equivalents at beginning of year	8,205
Cash and cash equivalents at end of year	2,043

Notes to proforma consolidated cashflow statement

Cash and cash equivalents comprise:

Cash and bank balances, net of deposits pledged	6,376
Bank overdrafts	(4,333)
	2,043

3.15 Proforma net tangible assets cover

Based on the statement of assets and liabilities of the Proforma KHIB Group as at 30 April 2004, the net tangible assets cover will be as follows:

	Proforma Group RM'000
Proforma net tangible assets as at 30 April 2004	49,351
Add : Proceeds from public issue	5,070
Less : Estimated listing expenses	(2,000)
Adjusted balance at 30 April 2004	52,421
Issued and paid-up share capital	
Number of ordinary shares of RM0.50 each assumed in issue as at 30 April 2004	91,200
Add : Public issue	7,800
	99,000
Proforma net tangible assets cover per ordinary share of RM0.50 each (RM)	0.53

3.16 Events subsequent to the balance sheet date as at 30 April 2004

There are no events which have arisen subsequent to the balance sheet date which requires adjustments to this Report, other than the additional tax assessment for prior years of approximately RM620,000 and tax penalty of RM680,000 which have been accounted for in the audited financial statements of KHI as at 30 April 2004.

KPMG

3.17 Audited financial statements

No audited financial statements have been drawn up for any period subsequent to 30 April 2004.

Yours faithfully

KPMG

KPMG
Firm Number: AF 0758
Chartered Accountants

Tang Seng Choon
Partner
Approval Number : 2011/12/05(J)

(Prepared for inclusion in this Prospectus)

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13 September 2004

Infocredit D&B (Malaysia) Sdn Bhd
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50490 Kuala Lumpur

RE: INDEPENDENT MARKET RESEARCHER REPORT FOR KEIN HING INTERNATIONAL BERHAD ("KHIB")

This report has been prepared for inclusion in the Prospectus of KHIB dated 17 September 2004 pursuant to the listing of KHIB on the Second Board of Bursa Malaysia Securities Berhad.

This research is undertaken with the purpose of providing an overview of the Precision Metal Forming Industry in Malaysia as well as the operations of KHIB within the industry.

The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house corporate databases, Internet research and online databases.

Infocredit D&B (Malaysia) Sdn Bhd ("Infocredit D&B") has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industries within the limitations of the abovementioned research methodologies. Our assessment is for the overall industries and may not necessarily reflect the individual performance of any company.

An executive summary is highlighted in the following sections.

For and on behalf
INFOCREDIT D&B (MALAYSIA) SDN BHD

Tan Sze Chong
Managing Director

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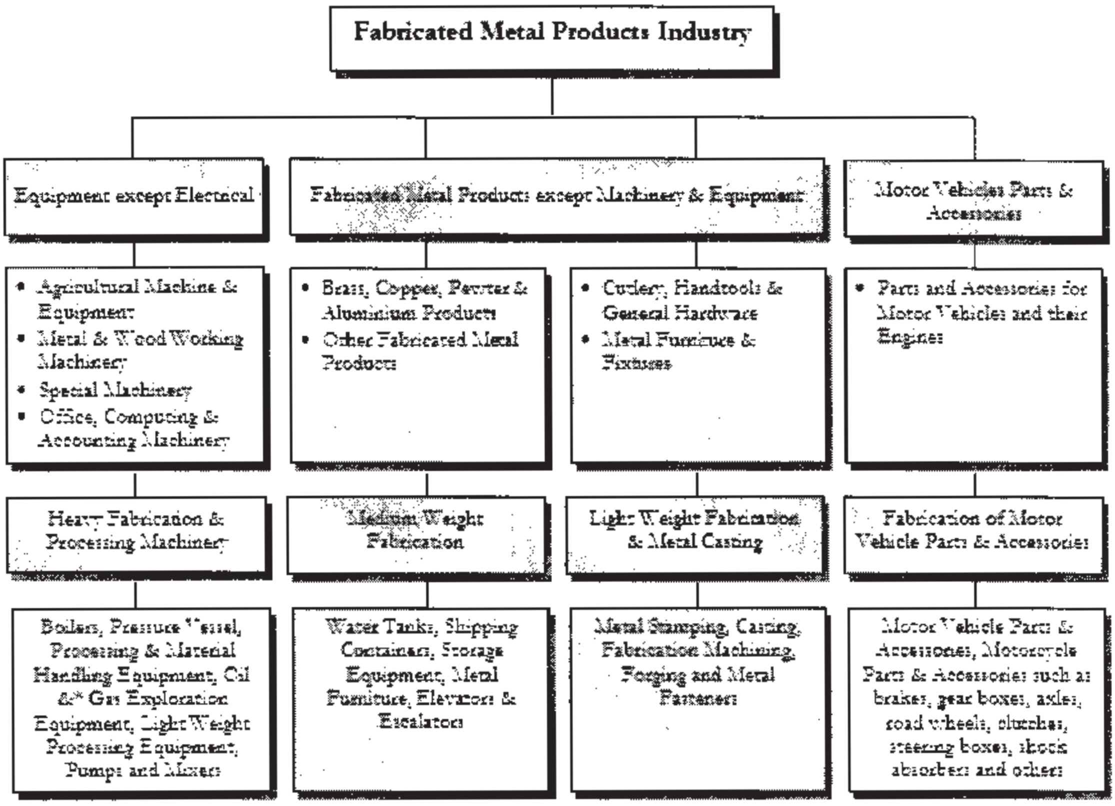
EXECUTIVE SUMMARY

KHIB and its subsidiaries ("KHIB Group") are currently reviewing its position within the precision metal forming industry in Malaysia. The following is a summary of the key findings.

1 INDUSTRY ASSESSMENT

1.1 BROAD INDUSTRY– FABRICATED METAL PRODUCTS INDUSTRY

The focus sector under analysis, namely the precision metal forming industry, is a sub-sector of the fabricated metal products industry which covers three main activities, namely *fabricated metal products except machinery & equipment, equipment except electrical and motor vehicle parts & accessories.* This can be further explained by the nature of fabrication process summarised in the Figure as follows:



The fabricated metal products industry is generally domestic oriented as it mainly offers services within the domestic arena. It covers the manufacture of metal structures for oil and gas, construction and manufacturing industries, tanks, drums and metal boxes, tin cans, metal furniture and fixtures, wire and wire products, non-ferrous metal products and other products.

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The products sale is a derived demand from other industries. Therefore, the growth of the industry is solely dependent upon other industries.

In 2003, 46 investment applications amounting to RM316.7 million were received by Malaysian Industrial Development Authority ("MIDA") for the manufacture of fabricated metal products as compared to 44 applications amounting to RM345.9 million received in 2002. This accounted for 4.9% of the total applications received for manufacturing projects. Of these 46 applications, 24 constitute new projects (RM230.8 million) and 22 were expansion/diversification projects (RM85.9 million). Existing manufacturers will continue to undertake expansion and diversification projects. Meanwhile, domestic investment received amounted to RM212.8 million or 67.2% of investment applications received for manufacturing of fabricated metal products and foreign investment amounted to RM103.9 million or 32.8% of investment applications received for manufacturing of fabricated metal products.

There were 965 projects worth RM29.1 billion approved by the MIDA in 2003 of which 514 are new projects. Out of the 514 new projects approved, 42 approved new projects worth RM1.3 billion were from the metal fabricated products industry in 2003. In terms of domestic investments in new projects, a total of 236 or 65% new Malaysian-owned companies were small to medium sized projects with investments less than RM10.0 million in 2003. Of the 236 new domestic projects approved, 27 were from the metal fabricated products industry. Most of these projects include local companies supplying high quality parts and components to multi-national companies ("MNCs"). One new locally owned metal fabricated products project worth RM164.0 million was approved in 2003.

In the metal stamping sub-sector of the fabricated metal products industry, a total of seven projects worth RM104.1 million were approved in 2003 as compared to four projects worth RM30.7 million in 2002. Out of the seven approved projects, four were new projects while the remaining three projects were for expansion/diversification. Most of these companies, comprising Small Medium Enterprises, are expected to supply stamped parts to the electrical and electronics ("E&E") and automotive industries.

(Source: MIDA)

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At the low-end of the industry involving simple fabricated process, there are many blacksmiths, foundries and other establishments supplying simple fabricated metal products such as metal doors, window grilles, simple pumps, screws, fasteners, etc to the market place. This market segment requires simple processing machinery.

Moving up the sophistication of the fabrication process is the manufacture of value-added products such as air-conditioner cabinets, gas burners, as well as high precision metal products like jigs, fixtures, tools and die moulds, computer disk-drive components or other automation equipment and engineering components. Industrial goods that include, among others, boilers, heat exchangers and air-compressors, can be obtained locally.

Players have been inching up to engage in higher value metal fabrication processes by utilising and researching into more advance processes. There are already players in the local market that are capable of fabricating the processing and refining equipment for the primary industries in Malaysia such as rubber, cocoa, tin, palm oil, etc which usually involves higher level of processing sophistication and expertise.

The fabricated metal products industry had evolved from supporting traditional resource-based and agro-based industries to higher value-added and technologically advanced manufacturing industries. In the fourth quarter of 2003, the major group of fabricated metal products, namely equipment except electrical contributed 66.8% increase in manufacturing output. Export value recorded a strong growth during the period of 1997 to 2002, achieving an impressive compounded annual growth rate of 9.8%. This was mainly attributed to the improved price competitiveness resulting from the depreciation of the Ringgit Malaysia ("RM").

The majority of exports of metal fabrication products were made to Singapore, Japan, Italy, the United States of America, Hong Kong and China.

(Source: MIDA)

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NATURE OF COMPETITION

The fabricated metal products industry is fragmented with various categories of industry players, as the market is crowded with players manufacturing products ranging from simple fabricated products such as nuts and bolts to highly specialised machinery. According to the Department of Statistics, there are approximately 4,705 companies in operation in the Malaysian fabricated metal products industry in 2003. The majority of companies in this broad sector are small companies which are involved in simple metal fabrication works.

Metal fabricators can be broadly segmented into three different groups; producers for internal consumption or consumption by a subsidiary company, manufacturers of a diverse range of products for consumption in a broad range of industries, and single product manufacturers. Single product manufacturers are often highly specialised and a good example would be players in the automotive parts which are segmented under a special category by itself.

Despite the level of automation and maturity of the industry which comprises a large number of automated plants and equipped with sophisticated metal forming machinery and equipment, the fabricated metal products industry remains highly domestic driven.

In general, the fabricated metal products industry in Malaysia may be characterised as highly competitive. Nevertheless, the industry includes highly specialised metal fabricators such as those involved in fabrication of specialised machinery, products manufactured from investment casting and cold/hot forged products and those which are normally specialised within its own niche market. Typically, specialised metal fabricators require heavy investments and technology capabilities. For example, according to MIDA, a new company involved in non-ferrous metal and stainless steel forged and cast parts (with technology from Italy) has allocated RM10 million as initial investment in 2002.

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DEMAND

The fabricated metal products industry is solely dependent upon the demand from other industries. For example, the construction industry is fundamental to the demand of the fabricated structural metal industry; likewise, the demand for general component-producing industries such as screw machine products and industrial fasteners is directly related to the automobile and public works construction activities. The life cycle of the different sub-sectors within this industry is thus dependent on the related industries where the demand is derived from.

The local automobile industry, specifically the car parts/accessories segment has been providing tremendous opportunities to the fabricated metal products players. The local fabricated car parts/accessories industry segment has benefited from the Government's urge on Perusahaan Otomobil Bhd and Perodua Auto Corporation Sdn Bhd to produce Malaysian-made cars with high local content. With more certainties in the new tariff structure coupled with positive economic outlook, growth of the automobile industry is expected to rise in 2004. The production of motor vehicle parts and accessories recorded an output of RM4.9 billion in 2003[1]. The year 2003 also saw the entry of many new models and brands into the market. This positive trend has reflected the strengthening of market sentiments by the producers and consumers.

In recent years, a common substitute for metal is plastic. Plastic injection moulding is a process that can be used to produce electronics or automotive parts. However, plastics are not suitable to replace metal in all E&E parts especially computer parts. Metal is still used widely in consumer electrical appliances, office equipment and machinery. This is because metal has the advantage of strength, thickness, capacity and durability.

[1] *Source: Monthly Manufacturing Statistics, June 2004, Department of Statistics*

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1.2 GOVERNMENT LEGISLATIONS, POLICIES AND INCENTIVES

As with other manufacturing sectors, the major incentives for manufacturers of fabricated metal products are tax-related ones such as the Pioneer Status, Investment Tax Allowance ("ITA") and Reinvestment Allowance. Eligibility for Pioneer Status or ITA is based on certain priorities, including the levels of value-added, technology used and industrial linkages.

Besides the above, there are also indirect tax incentives in the form of exemptions from import duty, sales tax, excise duty, as well as export incentives. To increase the supply of skilled and semi-skilled labour, the government is considering the provision of financial assistance to the private sector for the establishment of technical and vocational centres.

Offset arrangements are part of contract agreements designed to help purchasers obtain the desired transfer of technology and provide local employment. They include co-production, licensed production, subcontract, technology transfer, training and counter purchase. Small and medium size industry in the machinery and engineering equipment group is one of the target groups for these offset arrangements. The Government will facilitate and steer the implementation of offset programmes as well as provide information on critical technologies, potential companies and funding arrangements.

Regulations for noise, water and marine pollution control have been developed under Malaysia's principal environment legislation; the Environment Quality Act, 1974 which is administered by the Department of Environment. Companies that perform metal fabrication activities are subject to a number of regulations due to cleaning materials and chemicals used in this industry. For example, for hazardous and toxic waste, a facility that generates, stores, transports, treats or disposes of scheduled waste is subject to several regulations such as the Environmental Quality (Scheduled Wastes), Prescribed Premises, Scheduled Waste Treatment and Disposal Facilities Regulations of 1989.

An important macro development is the tariff deregulation under the Common Effective Preference Tariff ("CEPT") within ASEAN Free Trade Area. Tariffs for products from within Association of South East Asian Nations ("ASEAN") member countries are capped at between 0% and 5% under CEPT. Products will be deemed to be from ASEAN member countries if 40% or more of its content originates from any member country.

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1.3 FOCUS INDUSTRY - PRECISION METAL FORMING INDUSTRY

The precision metal forming industry in Malaysia is a subset of the broader engineering supporting industry which covers a broad range of activities or applications such as sheet metal forming, forging, metal stamping and other metal fabrication activities. Its application transcends almost all of the manufacturing sectors at large. Many of the engineering supporting industries evolved from backyard cottage industries, which sprouted due to demand for cheaper components and spare parts.

The most common and widely used application in the precision metal forming industry is metal stamping. Metal stamping is an application that involves hydraulic or mechanical presses that apply force to sheet metal through hard tooling and producing a variety of parts. Precision metal forming, or sometimes referred to as metal stamping process, covers machines such as bending machines, hot and cold forming machines, presses and special purpose forming equipment. There are a number of stamping facilities equipped with machining operations. These machining activities involve metal parts that are added with bolts or threads and other secondary operations such as degreasing, welding and sub-assembly.

Hydroforming is an alternative process in precision metal forming in which the metal tube blank is formed into a particular shape using internal water hydraulic pressure. Various shapes and sizes of holes can be punched almost anywhere in the metal tube during the hydroforming process. However, hydroforming process can only be used in certain metal parts and is not suitable for miniaturised metal forming parts since this technique is only applicable in producing whole components made from multiple stampings.

The Malaysian precision metal forming industry itself is an important industrial contributor to the Malaysian economy. It is a supporting industry to the E&E, automotive, industrial equipment machinery and household appliances sectors. However, apart from producing simple shears, guillotines, benders and power presses, a large portion of the industry requirements for machinery is met by imports. Therefore, the Government encourages incorporation of new technologies, research and development and engineering design of machinery and equipment to achieve world class manufacturing standards inline with its vision 2020.

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The precision metal forming industry consists of an estimated 300 companies comprising mostly small and medium sized companies that serve mainly the automotive and E&E sectors. Most of the precision metal forming companies' equipment have a lifespan of between 5 and 20 years depending on their quality, usage and type of machines. Customers of metal stamping parts especially precision stamping are normally large companies or MNCs in the automotive, consumer appliances, electronics and computing industries.

The precision metal forming industry is generally highly competitive and fragmented, having a large number of players servicing different industries. Most of the existing players are well established in the market. Competition is mainly based on price, timely delivery and capacity. The level of competition also depends on the competitiveness of the industries that the stamping players supply to customers. In the E&E sector, there are many parts that use metal fabricated products. Some parts especially complex computer parts or automotive parts require high level precision technology while the other simple parts do not require stringent standards of quality.

Precision metal forming is an established industry especially in the Western Corridor of Malaysia where fierce competition arises due to escalating raw material costs and pricing pressures. Larger companies have the ability to invest in large, reliable and complex machine tools that are expensive and able to meet specific customers' requirements up to a very precise tolerance level ranging from 5 to 10 microns. The type of machinery used depends on the types of raw materials used and products produced. Imported machine tools especially from Japan are usually known to be more reliable, durable and are capable of meeting customers' quality standards. Although precision metal forming is an established industry, there is still room for further development of more advanced activities such as transfer stamping, high-speed stamping and secondary processes.

Generally, the precision metal forming industry is segmented into different groups of players from large precision metal forming companies, medium to many other small independent operators. The smaller operators usually service small companies or provide stamped parts on a smaller scale. These operators were found to employ only 5 to 30 production workers which are subject to the volume of orders and number of machines in operation. Most of the products are made to cater to the local market whereas the rest are directly or indirectly exported. The larger companies are the ones actively involved in export activities as they are able to operate on a mass production scale and have proper quality control facilities to meet the demands of MNC

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customers. These companies will continue to secure contracts from MNC customers as long as customers are satisfied with the products and specifications are met from time to time. The industry also serves local projects for the automotive sector such as Perodua Sdn Bhd and Perusahaan Otomobil Bhd.

Almost all players in the market are in the original equipment manufacturing ("OEM") business where customers are mainly from industries producing E&E and automotive products as well as other appliances. Metal stamped parts that are produced in the E&E industry such as computer parts or electronic parts require higher precision levels. Some of the stamping producers practice stringent quality control procedures to minimise product defects and avoid product recalls.

The precision metal forming industry is estimated at RM1.37 billion in 2003. The top players ranked by revenue are Kris Components Bhd, CS Metal Industries Sdn Bhd, PHN Industry Sdn Bhd and Jotech Holdings Bhd. These companies are involved in the manufacturing of precision components and parts to support the E&E, automotive and other engineering supporting industries. KHI is one of the major players in the precision metal forming industry with an increase of about 16% of consolidated annual turnover from RM78 million in FYE2002 to RM90.2 million in FYE2003. It ranked 7th in the industry accounting for 6.6% of total market share by revenue in 2003. KHI's main competitive advantage lies in its technological capabilities in producing automotive parts using cold forging technology. In addition, KHI is also capable of producing high volumes of stamped, machining and sub-assembly parts and is widely recognised for its quality and reliability among customers. It is known as a one-stop metal components and machining centre supported with secondary processes.

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Major Precision Metal Forming Industry Players in Malaysia

Companies	Customers' Industries	Export	Year of Establishment	Notes	OEM
CS Metal Industries (M) Sdn Bhd	E&E (heat sink, leadframe sink, audio video), metal plates	Yes	1989	Precision progressive stamping, robotic, manual, assembly, secondary process	Yes (MNC)
Cybron TL Manufacturing Sdn Bhd	E&E	Yes	1990	Progressive stamping, robotic, secondary process	Yes (MNC)
Gallant Metal Stamping Sdn Bhd	E&E (Audio video, home appliances), automotive	Yes	1990	Progressive stamping, robotic, secondary process (sub-assembly, welding, plasma cutting)	Yes (MNC)
KHI (Group)	E&E (Audio video, home appliances, office equipment), automotive	Yes	1981	Progressive stamping, robotic, precision machining, forging, secondary process	Yes (MNC)
Kobakin (M) Sdn Bhd	E&E (shadow mask for CRT, yoke for hard disc drive), telecommunication parts	Yes	1991	Precision progressive stamping, heat treatment	Yes (MNC)
Kris Components Bhd (Group)	E&E, home appliances, telecommunication, automotive	Yes	1975	Precision progressive stamping, robotic, secondary process (surface finishing)	Yes (MNC)
New Hoong Fatt Holdings Bhd	Automotive body parts	Yes	1989	Progressive stamping, robotic, manual stamping	Yes (MNC, local)
Sinometal Components Bhd	E&E parts	No	1990	Progressive stamping, robotic, manual stamping	Yes
Hoyo Technology Sdn Bhd	E&E (Audio visual)	Yes	1999	Progressive, manual stamping and semi-assembly	Yes (local)
Sadoshima Malaysia Sdn Bhd (formerly known as Ishii Sunrock Precision Industries Sdn Bhd)	E&E (Home audio)	No	1989	Progressive stamping, robotic, manual stamping	Yes (local, MNC)
Atlan Holdings Bhd (Group)	E&E (computer parts), others (bookmarks)	Yes	1974	Precision progressive stamping, robotic, manual stamping, semi-assembly	Yes (MNC)
PHN Industry Sdn Bhd	Automotive components, E&E	Yes	1990	Stamping, sub-assembly, dies maintenance, secondary process	Yes (MNC)
Wong Engineering Bhd (Group)	E&E (telecommunication, computer, audio video)	Yes	1996	Precision progressive stamping, machining, robotic, secondary processes	Yes (MNC)

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Companies	Customers' Industries	Export	Year of Establishment	Notes	OEM
Zamria Sdn Bhd	Automotive components, home electrical appliances (air-con parts)	Yes	1990	Machining, stamping secondary processes (heat treatment)	Yes
Jotech Holdings Bhd (Group)	Automotive, E&E (consumer electronics)	No	1995	Precision stamping, tooling	Yes (MNC)
Tracoma Holdings Bhd	Automotive components	No	1997	Progressive stamping, casting,	Yes (Local car producers)
Lipo Corporation Bhd (Group)	Telecommunication, E&E, Automotive, scientific & medical devices	Yes	2001	Precision stamping, machining, secondary process (plating, surface treatment)	Yes (MNC)
Nichibei Parts Sdn Bhd	E&E (audio video, TV, facsimile)	No	1989	Precision stamping parts	Yes
Keen Component Industries Sdn Bhd	E&E, Automotive components	Yes	1979	Stamping, welding	Yes (MNC)
PNE Micron Engineering Sdn Bhd	E&E (audio video)	Yes	1992	Progressive stamping, single stroke stamping	Yes
TBM Technology Sdn Bhd	E&E (Computer parts, audio video)	Yes	1989	Progressive stamping, single stroke stamping, sub-assembly	Yes (MNC)

Note: E&E – Electrical & Electronics
Sources: Infocredit D&B Research, Registrar of Companies, Bursa Malaysia Securities Berhad

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1.4 MARKET SIZE

The table below highlights an estimated market share analysis of players with similar business activities as KHI Group by revenue and profitability.

Revenue of Major Precision Metal Forming Companies by Market Share Ranking, 2003

Companies	2003 RM '000	Market Share %
Kris Components Bhd (Group)	273,639	20.0%
CS Metal Industries (M) Sdn Bhd ^	153,075	11.2%
PHN Industry Sdn Bhd *	118,363	8.6%
Jotech Holdings Bhd (Group)	117,953	8.6%
New Hoong Fatt Holdings Bhd #	113,641	8.3%
Wong Engineering Corporation Bhd (Group)	110,803	8.1%
KHI (Group)	**90,202**	6.6%
TBM Technology Sdn Bhd *	85,349	6.2%
Tracoma Holdings Bhd	71,267	5.2%
PNE Micron Engineering Sdn Bhd *	37,123	2.7%
Sadoshima Malaysia Sdn Bhd * ^	37,063	2.7%
Atlan Holdings Bhd (Group)	36,576	2.7%
Kobakin (M) Sdn Bhd	32,682	2.4%
Lipo Corporation Bhd (Group)	25,561	1.9%
Nichibei Parts Sdn Bhd ^	16,166	1.2%
Cybron TL Manufacturing Sdn Bhd *	16,054	1.2%
Gallant Metal Stamping Sdn Bhd * ^	8,398	0.6%
Hoyo Technology (M) Sdn Bhd *	7,567	0.6%
Zamria Sdn Bhd *	6,298	0.5%
Sinometal Components Sdn Bhd * ^	6,170	0.5%
Keen Component Industries Sdn Bhd * ^	4,610	0.3%
Total	**1,368,560**	**100.00%**

*Note: * = Operating revenue, ^ = Based on 2002 revenue # = Based on 1999 revenue*
Tokyo Byokane (M) Sdn Bhd changed its name to "TBM Technology Sdn Bhd" as of 1 March 2004
Sources: Bursa Malaysia Securities Berhad, Registrar of Companies, Companies' Annual Reports

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Pre-Tax Profit Margin of Major Precision Metal Forming Companies, 2003

Companies	Revenue 2003 RM '000	Pre-Tax Profit 2003 RM '000	Pre-Tax Profit Margin 2003 %
Kris Components Bhd (Group)	273,639	26,192	9.6%
CS Metal Industries (M) Sdn Bhd ^	153,075	2,109	1.4%
PHN Industry Sdn Bhd *	118,363	15,705	13.3%
Jotech Holdings Bhd (Group)	117,953	10,998	9.3%
New Hoong Fatt Holdings Bhd #	113,641	19,693	17.3%
Wong Engineering Corporation Bhd (Group)	110,803	2,258	2.0%
KHI (Group)	**90,202**	8,252	9.1%
TBM Technology Sdn Bnd *	85,349	15,468	18.1%
Tracoma Holdings Bhd	71,267	5,086	7.1%
PNE Micron Engineering Sdn Bhd *	37,123	14,301	38.5%
Sadoshima Malaysia Sdn Bhd * ^	37,063	64	0.2%
Atlan Holdings Bhd (Group)	36,576	2,235	6.1%
Kobakin (M) Sdn Bhd (Group)	32,682	1,347	4.1%
Lipo Corporation Bhd (Group)	25,561	-12,899	-50.5%
Nichibei Parts Sdn Bhd ^	16,166	756	4.7%
Cybron TL Manufacturing Sdn Bhd *	16,054	2,659	16.6%
Gallant Metal Stamping Sdn Bhd * ^	8,398	705	8.4%
Hoyo Technology (M) Sdn Bhd * ^	7,567	-1,453	-19.2%
Zamria Sdn Bhd *	6,298	276	4.4%
Sinometal Components Sdn Bhd * ^	6,170	-311	-5.0%
Keen Component Industries Sdn Bhd * ^	4,610	294	6.4%
Total	**1,368,560**		

Note: Companies are ranked by revenue
**= Operating revenue ^ = Based on 2002 revenue # = Based on 1999 revenue*
Sources: Bursa Malaysia Securities Berhad, Registrar of Companies, Companies' Annual Reports