
12. SUMMARY OF INDEPENDENT MARKET RESEARCH CONSULTANT REPORT

F R O S T & S U L L I V A N

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Date: 21 September 2005

Dear Sir,

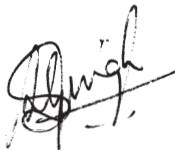
**Executive Summary of the Independent Market Research Consultant Report on the
Strategic Analysis of the Metal Stamping Industry in Malaysia**

This Executive Summary of the Independent Market Research on the strategic analysis of the metal stamping industry in Malaysia is prepared by Frost & Sullivan (M) Sdn Bhd for inclusion in the Prospectus of Ban Seng Lee Berhad ("BSL") in relation to the proposed listing of BSL on the Second Board of Bursa Malaysia Securities Berhad. The summary provides a write-up on the one-stop metal stamping solutions provider market in which BSL operates in; with specific focus on metal stamping, PCB assembly, and hot metal forging.

Yours faithfully,

For and on behalf of

FROST & SULLIVAN MALAYSIA SDN BHD



Sanjay Singh

Director

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**STRATEGIC ANALYSIS OF THE METAL STAMPING
INDUSTRY IN MALAYSIA*****1. Overview of the Global Economy***

The world's gross domestic product ("GDP") improved from an average of 2.1% in 2001-2002 to a growth rate of 3.0% in 2003. Improvement in this growth was accompanied by a sharp pick up in the developments of the industrial countries, which had been the hallmark of the recovery in global markets. On the other hand, the GDP growth rate is expected to achieve 5.3% in 2004 in developing countries. However, the domestic demand continues to lag in the developing world, as such, the growth dynamics in this segment of the world remain evidently export-led. The People's Republic of China ("PRC") continues to lead the pack with its GDP growth expected to re-accelerate to 7.9% in 2004 after average gains of 7.5% in 2002-2003.

The industrial consumer price index ("CPI") is expected to inch up fractionally to just 1.8% in 2004, following average gains of just 1.5% in 2002-2003. Inflation should remain fairly stable for the coming years. The outlook for the global economy has improved with growth becoming broader based. External demand is therefore expected to be sustained in an external environment of stronger growth in the major industrial economies and higher growth in the Asian region.

In the developing countries, investment behavior has become a key element of their economic outlook. Countries which have strong policies in place are more likely to avoid external financial shocks. However, the downside risks to the forecasts include the emergence of other flash points in the Middle East, terrorist reprisals, possible hike in US interest rates, the cooling of the Chinese economy and the elevating oil prices. The softening of the US economy is anticipated as it squeezes its financial policy after a strong recovery momentum and gradual inflationary pressure, coupled with the tapering off of the tax-cut stimulus in the coming months. However, the consensus is that the US economic slowdown is not likely to be significant and should not lead to another global economy meltdown.

The expected slowdown of growth in the Chinese economy is expected to have an impact on its demand for exports. The PRC has been working hard to curb overinvestment, which may result in an overheated economy, via raising bank loan requirements, restricting bank credits and increasing the electricity rates in hopes of steering the economy towards a soft landing. Nevertheless, as this is done in a gradual manner, this would enable China to slow its economy to a more sustainable growth around 8.2% in 2005 as compared to 9.5% in 2004.

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2. Overview of the Malaysian Economy

The Malaysian economy has entered 2004 on a stronger overall growth performance and GDP is expected to expand by 7.1%, driven mainly by the private sector as the public sector remained committed to fiscal consolidation program. This growth is driven by stronger domestic demand and the underpinning of a more favorable external demand. In 2004, all sectors in the economy are expected to show positive growth except the construction sector, with the manufacturing industry leading the way with 9.8% in 2004, compared with 8.3% in 2003, as the global electronics industry is seen to be improving and with strong domestic demand.

The manufacturing sector, along with the services sector, are the main engines of growth in 2004 and they are expected to follow on in 2005. Growth in the manufacturing sector is mainly supported by the pick up in the global electronics industry and improved domestic demand. China's continued strong growth, Japan and US's firm recovery served as catalysts to the higher demand for manufactured goods, particularly for the electrical and electronics products. The latest indicators suggest that an upturn in the global semiconductor cycle is encouraging. Meanwhile, in the domestic-oriented industries group, growth will be supported by improved demand for motor vehicles and the expansion in the construction-related materials industries. With these favourable external environment, coupled with the strengthening in the growth of domestic-oriented industries, the contribution of the manufacturing sector to GDP growth is expected to increase.

While improving global and regional economies had lifted export growth, the local economy also got a lift from household spending and government consumption. The Malaysian economy entered first half of 2004 on a stronger overall growth performance recording a strong economic growth of 7.8%. However, following two consecutive quarters of strong growth averaging 8% real GDP growth, the Malaysian economy slowed slightly to register 6.8% growth in the third quarter of 2004. The slowdown continued into the fourth quarter of 2004 as real GDP growth was recorded at 5.6%. Nevertheless, the Malaysian economy had expanded by 7.1% in 2004, which is the highest GDP growth recorded since 2001.

Moving forward, the Malaysian economy is expected to moderate in 2005. Low interest rates and readily available financing, together with high commodity prices, had a positive effect on consumer spending and this will continue to be the dominant factor driving the economy. The manufacturing sector will continue to spearhead growth albeit at a slower pace as demand for electronic products tapers in the global semiconductor cycle.

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3. Focal Markets

Metal Stamping

The metal stamping industry is a competitive and established industry in Malaysia, especially in the Western Corridor of Malaysia. The growth of this industry has accelerated in tandem with the overall growth of the manufacturing industry for the past three decades, resulting from increasing volume of locally manufactured parts and components to meet domestic and global demand. Players will always compete among themselves in terms of delivery and reliability. Nevertheless, this industry is regarded as one of the most important industries in Malaysia because it is the basic foundation for the mass production of metal parts and components for a wide range of industries, primarily the electrical & electronics and automotive industries. The metal stamping industry in Malaysia has over 300 companies serving both the domestic and export markets. The expansion of the electronics industry in Malaysia and its sectors; namely consumer electronics, computers and computer peripherals, and telecommunication equipment, along with the expansion of the automotive industry, has boosted demand for metal stamping products significantly.

Metal stamping is a metal forming process in which stamping dies shapes sheet of metal into predetermined parts. This process can be performed via conventional stamping and progressive stamping using different types of metal such as steel, alloy, aluminum, brass, zinc, copper, and titanium. The metal stamped parts or components produced using both these stamping methods are consumed by various industries in Malaysia, such as consumer electronics, computer and peripherals, data storage devices, telecommunication equipments, audio & visual equipments and automotive parts.

Generally, the metal stamping market can be segmented into three categories – pure metal stamping players, one-stop metal stamping solution providers, and other small fragmented metal stamping players. However, developments over the years indicated that the metal stamping industry in Malaysia has gradually evolved from the traditional single metal stamping operations to an integrated “One-Stop Metal Stamping Solution Providers”. Moving up the value chain, one-stop solution providers have also expanded their operational capabilities to include metal mould fabrication, and other additional value-added services, such as post-stamping inspection, assembly, and packaging. This resulted in the increased competitiveness of the players in the metal stamping industry to continuously provide a higher level and quality of services, as well as the provision of value-added services. The gradual evolution has led to the rise of only few distinguished players with the ability and capacity to meet the increasing demands of the metal stamping industry.

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The metal stamping industry in Malaysia is a fragmented industry and comprises many players. Hence, capturing an accurate market share amongst the metal stamping companies remains a challenging task. Nevertheless, the leading one-stop metal stamping solution providers for the electrical & electronics industries that have substantial market presence in Malaysia are identified as listed, but not limited to, in Figure 1.

Figure 1: The Leading One-Stop Metal Stamping Solution Providers for the Electrical & Electronics Industries in Malaysia

Companies	Revenue ¹ (RM'mil)	Year	Estimated Market Share ²
AE Technology Sdn Bhd ³	270	2003	28%
CS Metal Industries (M) Sdn Bhd	153	2002	16%
Kein Hing Industry (M) Sdn Bhd	98	2004	10%
Jotech Holdings Bhd	76	2003	8%
Seksun Technology Sdn Bhd	76	2003	8%
BSL Corporation Bhd	72 ⁴	2004	8%
Tekun Asas Sdn Bhd	44	2002	5%
Wong Engineering Sdn Bhd	44	2002	5%
Atlan Holding Bhd	37	2003	4%
Kobakin (M) Sdn Bhd	33	2003	3%
Others ⁵	45		5%
Total	948		100%

Source: Frost & Sullivan, 2004

Notes:

¹ Revenue figures based on latest available information as depicted in "Year" column

² Estimated market share based on latest available revenue figures

³ 100% metal stamping subsidiary of Kris Components Bhd

⁴ Revenue contributions by metal stamping and PCB assembly operations only

⁵ Estimated revenue on other one-stop metal stamping solution providers in Malaysia

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PCB Assembly

PCB assembly has also become an important value-added service to the one-stop metal stamping solution providers, especially those serving the electrical & electronics industry. However, there are not many metal stamping companies which fall under the category of one-stop metal stamping solution providers with the ability and capacity to provide PCB assembly services, which is becoming an integral part of metal stamping services. Identified companies based on the available information are AE Technology Sdn Bhd (“AE Technology”), Seksun Technology Sdn Bhd (“Seksun Technology”), and BSL Corporation Bhd (“BSL”). In this category, AE Technology is the market leader with an estimated 65% market share, followed by Seksun Technology and BSL with estimated 18% and 17% market shares respectively, as shown in Figure 2 and Figure 3.

Figure 2: The Leading One-Stop Metal Stamping Solutions Providers with PCB Assembly for the electrical & electronics industries in Malaysia

Companies	Revenue ¹ (RM'mil)	Year	Estimated Market Share ²	Products
AE Technology Sdn Bhd ³	270	2003	65%	Consumer electronics, automotive, telecommunications
Seksun Technology Sdn Bhd	76	2003	18%	Consumer electronics
BSL Corporation Bhd ⁴	72	2004	17%	Consumer electronics, automotive

Source: Frost & Sullivan, 2004

Notes:

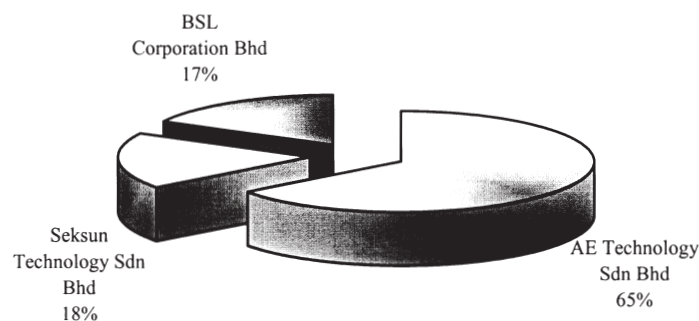
¹ Revenue figures based on latest available information as depicted in “Year” column

² Estimated market share based on latest available revenue figures

³ 100% metal stamping subsidiary of Kris Components Bhd

⁴ Comprises Ban Seng Lee Industries Sdn Bhd (Metal Stamping) and Crestronics (M) Sdn Bhd (PCB Assembly)

Figure 3: One-Stop Metal Stamping Solutions Providers with PCB Assembly Services for the Electrical & Electronics Industries in Malaysia



Source: Frost & Sullivan, 2004

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The ability to become a one-stop metal stamping solutions provider will give the metal stamping companies a niche over its competitors who do not possess this capability. The benefits of having this capability are better customer loyalty and customer satisfaction, having the ability to control the quality of the complete metal stamping process, reduce production lead time, competitive pricing, as well as keeping up with current industry expectations.

Hot Forging

Hot forging industry is also an established industry in Malaysia. Forging is a manufacturing process that is carried out in a hot environment where metal is pressed, pounded or squeezed under great pressure into high strength parts or components. The most common metals used in this process include carbon steel, stainless steel, aluminum, titanium, brass, and copper. Nevertheless, the type of metal used varies with the different type of forging – open die forging, closed die or impression forging, and seamless rolled ring forging.

The hot forging industry supports many dependent industries, such as the automotive, aerospace, ordnance/shipbuilding, valves & fittings, and hand tools & hardware industries. The importance of the hot forging industry is primarily due to its unique metal forming ability to form or shape metal which may not be achieved using other metal forming methods, such as metals with strong attributes. Hence, hot forging is normally deployed for parts and components where reliability, strength and human safety are critical as it can produce directional alignment for important directional properties in strength, ductility and resistance to impact and fatigue.

Hot forging is a relatively fragmented and specialized industry. The hot forging industry reflects a monopolistic to oligopolistic nature, depending on the type of product market. The key players identified are George Kent (M) Bhd (“George Kent”), Unique Forging & Components Sdn Bhd (a subsidiary of BSL Corporation Bhd) (“Unique Forging”), AE Systems Manufacturing (M) Sdn Bhd (a subsidiary of Kris Components Bhd) (“AE Systems”), and Master Shanghai Turnparts Sdn Bhd (“Master Shanghai”). George Kent is the contracted sole provider of water meter parts/components in Malaysia. Frost & Sullivan has identified Unique Forging and AE Systems as the leading hot forging players for the brass products market in Malaysia, both commanding a market share of 7% and 6% respectively, as shown in Figure 4.

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Figure 4: The Leading Players for Hot Forging of Brass Products in Malaysia (sorted by revenue)

Company	Revenue (RM ¹ mil) ¹	Year	Estimated Market Share ²	Brass Products
George Kent (M) Bhd	111	2003	79%	Water meters
Unique Forging & Components Sdn Bhd ³	10	2004	7%	Weight balancer, burner caps, gas & water valves
AE Systems Manufacturing (M) Sdn Bhd ⁴	9	2003	6%	Bolts, nuts
Master Shanghai Turnparts Sdn Bhd	3	2002	2%	Valves for gas cooker
Others	7 ⁵	2004	6%	miscellaneous
	140		100%	

Source: Frost & Sullivan, 2004

Notes:

¹ Revenue figures based on latest available information as depicted in "Year" column

² Estimated market share based on latest available revenue figures

³ 100% Owned Subsidiary of BSL Corporation Bhd

⁴ Subsidiary of Kris Components Bhd

⁵ Estimated revenue on other hot forging players in the brass product market in Malaysia

Hot forging has a number of advantages over other metal forming methods such as it provides directional strength, structural strength, impact strength, variety of shapes, metallurgical spectrum, and reduction of rejection rates. Nevertheless, despite these advantages, forging is by no means the optimum process for the production of the individual parts; it is ideally suited to applications that require very high quality, special sizes, restricted mechanical properties or critical performance specifications.

The hot forging industry in Malaysia is expected to grow in tandem with the growing dependant industries – especially the automotive industry which has been experiencing exponential growth since the economic crisis in the late 1990s. This encouraging outlook is expected to boost the prospects of the leading hot forging players in Malaysia.

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4. Industry Dynamics

Critical Success Factors

- *Integrated metal stamping solution* – The industry is moving towards a complete and integrated “One-Stop Metal Stamping Solution Provider”. Preferences are given by OEMs to metal stamping companies that possess integrated services ranging from front-end operations to back-end operations, such as mould design & prototyping, mould fabrication, metal stamping, and value-added services such as assembly and packaging.

- *Pricing and Product Quality* – The increasing competition in the industry is attributed to its fragmented and competitive nature. Price and product quality become one of the most visible competing platforms for the one-stop metal stamping solution providers. Given the turnaround in key market drivers such as consumer electronics and automotive, coupled with market liberalisation of the “cost-competitive” PRC, price and quality are expected to remain one of the major factors as OEMs seek for cost effectiveness, product quality and reduction in production cycle time.

- *R&D* – R&D is imperative for one-stop metal stamping solution providers to improve their technology in mould prototyping, design and fabrication. Innovation through R&D initiatives enables new prototype designs and higher tooling precision for metal stamping operations. Increasing complex designs and miniaturisations of complex new electronic products requires technological edge and capability to produce higher precision metal parts and components. One-stop metal stamping solution providers with the technological edge and capability will grow to command larger market share. This also enables them to compete in the international arena.

- *Reliability and flexibility* – Overwhelming demand and short product life-cycle in consumer electronics and automotive industries have resulted in high product turnaround in the market. Product life-span in the consumer market is short-lived by incessant innovation and OEMs’ desire to capture market share through first-to-market concept through aggressive product marketing strategies. This results in the spill-over effect of higher expectations for reliability in product delivery and manufacturing, low tolerance for product defects, and flexibility in meeting JIT manufacturing.

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- *Long established relationship with OEMs* – Long established relationship with the OEMs is another important factor in the established metal stamping industry. Years of arms-length business relationship creates trust and strong network foundation necessary for growth. OEMs do not have the luxury to try out new players (with unproven reliability and not familiar with the OEMs' operations/style) and risk themselves not meeting the deadline of production due to various possible reason, such as late delivery and product defects.

- *Experienced and skilled pool of workers* – There is no substitute for experience in the metal stamping industry. The pool of workers, their skills, experiences and technical expertise are crucial factors that could determine the quality of the metal stamped products. The metal stamping process requires high-end skills throughout especially those with in-house mould making operations. In the case of one-stop metal stamping solution providers, the skills extend to the design and prototyping of metal moulds and die, as well as value-added assembly of finished products.

- *International certification and recognition* – ISO is the world's largest developer of standards. Its principal role includes the development of standards which will bring about crucial positive economic and social repercussions. The ISO 9001 category, in particular, is among ISO's most widely known and successful standards to date. It recognises quality management and has become an international reference for quality requirements in this metal stamping industry. The ISO 14000, which is primarily concerned with environmental management, is also an important recognition. This particular ISO directs the organization to minimise harmful effects on the environment which is caused by its activities and also continuously improve its environmental performance. Both ISO 9001 and ISO 14000 are widely regarded as one of the critical success factors for this industry – they recognise the acceptability of a given player's quality at an international level.