(Prepared for inclusion in this Prospectus)

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The Board of Directors
Ni Hsin Resources Berhad
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14 June 2005

Dear Sirs

Accountants' Report

This report has been prepared by Messrs KPMG, an approved company auditor for inclusion in the Prospectus to be dated 30 June 2005 in connection with:

i) the public issue of 22,515,000 new ordinary shares of RM0.20 each in Ni Hsin Resources Berhad (hereinafter referred to as "NHR" or "the Company") at an issue price of RM0.33 per ordinary share; and

ii) the listing of and quotation for the entire enlarged issued and paid-up share capital of NHR comprising 225,000,010 ordinary shares of RM0.20 each on Second Board of the Bursa Malaysia Securities Berhad ("Bursa Securities").

1 General information

1.1 Background

NHR was incorporated in Malaysia under the Companies Act, 1965 as a public limited company on 22 May 2004 under the name of Ni Hsin Resources Berhad for the purpose of the listing exercise as detailed in Note 1.3.

The Company is principally an investment holding company.

KPMG, a partnership established under the Malaysian Law, is the Malaysian member firm of KPMG International, a Swiss cooperative

1.2 Share capital

As at the date of incorporation, NHR's authorised share capital was RM100,000 consisting of 100,000 ordinary shares of RM1.00 each. At that date, its issued and paid-up share capital was RM2.00 consisting of 2 subscribers' shares of RM1.00 each.

The authorised share capital of NHR was subsequently increased to RM100,000,000 consisting of 500,000,000 ordinary shares of RM0.20 each.

Pursuant to the restructuring scheme including the listing of and quotation for the entire paid-up share capital of NHR on the Second Board of Bursa Securities after completion of the scheme as set out in Note 1.3 below, the movement of the issued and fully paid-up share capital of NHR is as follows:

Number of ordinary shares	Par value per ordinary share RM	Purpose	Issued and fully paid-up share capital (Cumulative) RM
2	1.00	Subscribers' shares	2
10	0.20	Sub-division of shares	2
202,485,000	0.20	Acquisition of NHC	40,497,002
22,515,000	0.20	Public issue	45,000,002

1.3 Restructuring scheme

In conjunction with the listing of NHR on the Second Board of Bursa Securities, the restructuring scheme involves the following exercises:

1.3.1 Sub-division of shares

The sub-division of shares entails the sub-division of the par value of the existing ordinary shares in NHR from RM1.00 to RM0.20 per ordinary share.

Pursuant to the sub-division of shares, the issued and paid-up share capital of NHR has been sub-divided from RM2.00 comprising 2 ordinary shares of RM1.00 each to RM2.00 comprising 10 ordinary shares of RM0.20 each in the Company.

1.3.2 Distribution of final tax exempt dividend

Distribution of final tax exempt dividend of RM6 million by Ni Hsin Corporation Sdn. Bhd. ("NHC") prior to the acquisition of NHC by NHR.

1.3.3 Incorporation of revaluation surplus

A revaluation was carried out by a firm of independent professional valuers, Henry Butcher Malaysia Sdn. Bhd., to determine the market value of the landed property of NHC. The revaluation surplus of RM3,147,000 arising from the above revaluation is derived as follows:

Property	NBV as at 31.12.03	Open market value	Revaluation surplus
	RM'000	RM'000	RM'000
H.S.(D) 23490 & H.S.(D) 23491, Mukim of Kajang, District of Ulu Langat, State of Selangor Darul Ehsan	12,933	16,080	3,147

1.3.4 Acquisition of NHC

Acquisition of 13,764,706 ordinary shares of RM1.00 each representing the entire equity interest in NHC for a purchase consideration of RM40,497,356 was fully satisfied by the issuance of 202,485,000 new ordinary shares at approximately RM0.20 each in NHR.

The shares consideration in NHR issued pursuant to the acquisition of NHC have been allotted to the vendors in the following manner:

1.3.4 Acquisition of NHC (continued)

	No. of shares held in NHC	%	No. of consideration shares in NHR	%
Vendors of NHC				
- Hsiao Tsai Sheng	2,600,000	18.9	38,247,166	18.9
- Hsiao Liu Lee	2,600,000	18.9	38,247,166	18.9
- Hsiao Chih Jen	2,600,000	18.9	38,247,166	18.9
- Hsiao Chih Chien	2,600,000	18.9	38,247,166	18.9
- Hsiao Chih Che	2,600,000	18.9	38,247,166	18.9
- Te Tiam Sing @ Tay Kiam Seng	382,353	2.8	5,624,585	2.8
- Teh Hock Chuan	152,941	1.1	2,249,831	1.1
- Kek Pei Chin	229,412	1.6	3,374,754	1.6
Grand Total	13,764,706	100.0	202,485,000	100.0

Upon completion of the acquisition of NHC, the issued and paid-up share capital of NHR increased from RM2.00 comprising 10 ordinary shares of RM0.20 each to RM40,497,002 comprising 202,485,010 ordinary shares of RM0.20 each.

1.3.5 Acquisition of Ever-Grow Advanced Materials Sdn. Bhd. ("EGAM")

Upon completion of the acquisition of NHC, NHR has implemented an internal restructuring exercise whereby NHR acquired from NHC its entire equity interest of 51% in EGAM for a cash consideration equivalent to its investment costs in EGAM.

The said purchase consideration remained as an inter company balance between NHR and NHC.

Upon completion of the acquisition of NHC and EGAM, the 10 subscribers' shares of NHR are transferred equally to Hsiao Chih Jen and Hsiao Chih Chien.

1.3.6 Offer for sale

Offer for sale of 67,500,000 ordinary shares in NHR representing 30% of the enlarged issued and paid-up share capital of NHR to Bumiputera investors approved by the Ministry of International Trade and Industry at an offer price of RM0.33 per ordinary share. The offerors and the number of offer shares to be offered by the respective offerors are as follows:

1.3.6 Offer for sale (continued)

Offerors	No. of offer shares	% of enlarged issued and paid-up share capital
Hsiao Tsai Sheng	13,500,000	6%
Hsiao Liu Lee	13,500,000	6%
Hsiao Chih Jen	13,500,000	6%
Hsiao Chih Chien	13,500,000	6%
Hsiao Chih Che	13,500,000	6%
	67,500,000	30%

1.3.7 Public issue

Public issue of 22,515,000 new ordinary shares in NHR at an issue price of RM0.33 per ordinary share.

The 22,515,000 new ordinary shares to be issued pursuant to the public issue, which represent 10% of the enlarged share capital of NHR, are to be issued to the following parties:

(a) 15,000,000 new ordinary shares representing 6.7% of the enlarged share capital will be reserved for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside for Bumiputera individuals, companies, societies, co-operatives and institutions; and

(b) 7,515,000 new ordinary shares representing 3.3% of the enlarged share capital will be reserved for application by the Directors, eligible employees and business associates of the NHR Group.

Upon completion of the public issue, the issued and paid-up share capital of NHR will increase from RM40,497,002 comprising 202,485,010 ordinary shares of RM0.20 each to RM45,000,002 comprising 225,000,010 ordinary shares of RM0.20 each.

1.3.8 Listing and quotation

Listing of the entire enlarged issued and paid up capital of NHR on the Second Board of Bursa Securities.

1.3.9 Employees' Share Option Scheme ("ESOS")

NHR will establish an ESOS of up to 15% of the issued and paid-up share capital of NHR at any one time for the benefit of the Directors and eligible employees of the NHR Group.

1.4 Information on subsidiaries

The subsidiaries of NHR under the restructuring scheme as at the date of this report and their principal activities are as follows:

Name of company	Date of incorporation	< ------Share Capital------- > Authorised	Issued and fully paid-up	Principal activities
		RM	RM	
Ni Hsin Corporation Sdn. Bhd. ("NHC")	16 August 1989	15,000,000	13,764,706	Design, manufacture and sale of stainless steel kitchenware and cookware
Ever-Grow Advanced Materials Sdn. Bhd. ("EGAM")	20 April 2001	5,000,000	5,000,000	Research and development and manufacture of clad metal and stainless steel convex mirrors

1.5 Dividends

NHR has not declared or paid any dividend since its incorporation on 22 May 2004.

No dividends have been declared or paid by the subsidiaries except for NHC. Details of the dividends declared and paid by NHC for the last five years are as follows:

Year ended	Gross dividend rate %	Dividends declared/paid RM'000
NHC		
31 December 2000	-	-
31 December 2001	13.8	1,800
31 December 2002	2.3	300
31 December 2003	84.6	11,000
31 December 2004	43.6	6,000

1.6 Basis of accounting and accounting policies

The financial statements included in this report are based on the audited financial statements of the companies in the NHR Group, which have been prepared in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia issued by the Malaysian Accounting Standards Board ("MASB"). This report is presented on a basis consistent with the accounting policies normally adopted by NHC, save for the adoption of the merger method of accounting as the basis of consolidation and the revaluation policy for its freehold land and factory buildings.

1.7 Financial statements and auditors

The financial year end of the NHR Group is 31 December.

NHR was incorporated on 22 May 2004. The financial statements of NHR for the period ended 31 December 2004 were audited by KPMG.

The financial statements of NHC for the five (5) financial years ended 31 December 2004 were audited by KPMG.

EGAM was incorporated on 20 April 2001. The financial statements of EGAM for the period ended 31 December 2001 and three (3) financial years ended 31 December 2004 were audited by KPMG.

The auditors' reports on the above mentioned companies for the relevant financial period/years under review were not subject to any qualification.

2 Financial Performance

2.1 Proforma consolidated results

We set out below the summarised proforma consolidated results of the NHR Group for the five (5) financial years ended 31 December 2004 after making such adjustments as we considered necessary, assuming that the NHR Group had been in existence throughout the years under review. The proforma group consolidated results are prepared based on the audited financial statements of NHC for the five (5) financial years ended 31 December 2004, and the audited financial statements of EGAM for the period ended 31 December 2001 and the three (3) financial years ended 31 December 2004.

	< ----------Year ended 31 December---------- >				
	2000	**2001**	**2002**	**2003**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Turnover	40,547	29,258	24,612	41,473	38,258
Profit before depreciation and interest	10,693	5,005	4,089	12,252	13,056
Depreciation	(2,498)	(2,554)	(2,797)	(2,818)	(3,336)
Interest expense	(489)	(356)	(180)	(224)	(315)
Interest income	524	367	56	149	106
Operating profit	8,230	2,462	1,168	9,359	9,511
Share of profit/(loss) of an associate	6	(50)	(47)	(8)	-
Profit before taxation	8,236	2,412	1,121	9,351	9,511
Tax expense*	(1,615)	(560)	(88)	(1,208)	(1,999)
Profit after taxation	6,621	1,852	1,033	8,143	7,512
Minority interest	-	(28)	(393)	(1,918)	(1,379)
Profit after taxation and minority interest	6,621	1,824	640	6,225	6,133
Number of ordinary shares of RM0.20 each in issue ('000)**	202,485	202,485	202,485	202,485	202,485
Earnings per share (sen)					
Gross	4.1	1.2	0.4	3.7	4.0
Net	3.3	0.9	0.3	3.1	3.0

* *Tax expense has been adjusted for over/under provision in the respective years. Please refer Note 2.2.4*

** *The number of ordinary shares assumed in issue throughout the financial years under review is the number of ordinary shares in issue after the acquisition of NHC and EGAM by NHR, i.e. 202,485,010 ordinary shares of RM0.20 each*

2.2 Notes to the proforma consolidated results

2.2.1 Basis of consolidation

The proforma consolidated results of the NHR Group are prepared for illustrative purposes only and are based on the audited financial statements of all companies within the NHR Group for the years under review.

The results have been presented on the basis that the NHR Group had been in existence throughout the years under review, after making such adjustments as considered necessary.

2.2.3 Earnings per share

Gross and net earnings per share are calculated based on the profit before and after taxation attributable to the shareholders of NHR respectively. The NHR Group has an issued and paid-up share capital of RM40,497,002 comprising 202,485,010 ordinary shares of RM0.20 each pursuant to the acquisitions detailed in Note 1.3.

2.2.4 Prior year restatement

Tax expense

In preparing the proforma consolidated results, it is necessary to adjust for under or over provision of tax expense to the appropriate year of incurrence so that the effective tax rates are comparable.

Effect on the proforma consolidated results are as follows:

	< ----------Year ended 31 December---------- >				
	2000	**2001**	**2002**	**2003**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Tax expense					
Tax expense in respect of profit for the year	1,819	560	(76)	1,416	1,751
Adjustments*	(204)	-	164	(208)	248
Restated	1,615	560	88	1,208	1,999
Effective tax rate (%)	19.6	23.3	7.9	12.9	21.0
Statutory tax rate (%)	28.0	28.0	28.0	28.0	28.0

* *Adjustment for under or over provision of tax expense to the appropriate year of incurrence*

The Group's effective tax rates for 2000 to 2004 were lower than the statutory tax rate due to the utilisation of reinvestment allowances by one company and pioneer status incentive in the another company.

2.3 NHR

The summary of results of NHR for the past five (5) financial years ended 31 December 2004 were not presented as NHR was incorporated on 22 May 2004 and has not commenced operations since its incorporation.

2.4 Consolidated balance sheets

The summarised consolidated balance sheets of the NHC Group as set out below are based on the audited financial statements of NHC Group for the respective years. As NHR was dormant since its date of incorporation on 22 May 2004, the proforma consolidated balance sheets of the NHR Group would be principally that of NHC Group. As such, the proforma consolidated balance sheets of the NHR Group are not presented.

	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Property, plant and equipment	30,259	32,635	31,739	31,357	32,978
Investments in an associate	200	151	108	100	-
Other investments	54	51	51	31	-
Amount due from a company in which certain directors have substantial financial interest	-	-	106	33	-
Current assets	24,783	22,380	22,513	24,888	30,038
Current liabilities	10,499	7,872	6,250	10,964	9,267
Net current assets	14,284	14,508	16,263	13,924	20,771
	44,797	47,345	48,267	45,445	53,749
Financed by:					
Capital and reserves					
Share capital	13,000	13,000	13,000	13,000	13,765
Reserves	28,222	28,218	28,726	23,743	30,124
Shareholders' fund	41,222	41,218	41,726	36,743	43,889
Minority shareholders' interests	225	2,422	2,815	4,733	6,112
Long term and deferred liabilities					
Borrowings	50	-	-	152	144
Deferred taxation	3,300	3,705	3,726	3,817	3,604
	3,575	6,127	6,541	8,702	9,860
	44,797	47,345	48,267	45,445	53,749

3 Statement of assets and liabilities

3.1 Company

The statement of assets and liabilities of the Company as set out below is based on the audited financial statements of NHR as at 31 December 2004.

		RM'000
Current assets		
Other receivables	3.1.2	581
Cash and cash equivalents		*
		581
Current liabilities		
Other payables	3.1.3	581
		581
Net current assets		*
		*
Financed by:		
Share capital	3.1.4	**

* *RM2.00*

** *Issued and paid-up share capital of RM2.00 comprising 2 ordinary shares of RM1.00 each*

3.1.1 Notes to the statement of assets and liabilities

(a) Basis of accounting

The statement of assets and liabilities are prepared on the historical cost basis and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Other receivables

Other receivables are stated at cost.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand.

(d) Other payables

Other payables are stated at cost.

3.1.2 Other receivables

Other receivables comprise expenses incurred for issue of shares in connection with the listing of and quotation for its proposed enlarged issued and paid-up share capital on the Second Board of Bursa Securities.

The abovementioned expenses will be set off against share premium from the public issue of 22,515,000 new ordinary shares of RM0.20 each at an issue price of RM0.33 each per ordinary share.

3.1.3 Other payables

Other payables represent amount payable to NHC for the share issue expenses (Note 3.1.2) paid on behalf of the Company.

3.1.4 Share capital

	RM'000
Ordinary shares of RM1.00 each:	
Authorised	100
Issued and fully paid	*

* *Issued and paid-up share capital of RM2.00 comprising of 2 ordinary shares of RM1.00 each*

3.1.5 Financial instruments

Financial risk management objectives and policies

There is no significant risks as the Company has not commenced operations since its date of incorporation.

Fair values

In respect of cash and cash equivalents, other receivables and other payables, the carrying amounts approximate fair values due to the relatively short term nature of these financial instruments.

3.1.6 Events subsequent to the balance sheet date

(a) The Company obtained approval from the Securities Commission for the listing of and quotation for its entire proposed enlarged issued and paid-up share capital on the Second Board of Bursa Securities as referred to in Section 1.3.

(b) The Company has also altered its authorised share capital from RM100,000 consisting of 100,000 ordinary shares of RM1.00 each to RM100,000 consisting of 500,000 ordinary shares of RM0.20 each. Accordingly, the issued and paid-up share capital of the Company was altered from RM2.00 consisting of 2 ordinary shares of RM1.00 each to RM2.00 consisting 10 ordinary shares of RM0.20 each.

3.2 NHC Group

The statement of assets and liabilities of the NHC Group as set out below is based on the audited financial statements of NHC Group as at 31 December 2004.

	Note	RM'000
Property, plant and equipment	3.2.2	32,978
Current assets		
Inventories	3.2.3	14,887
Trade and other receivables	3.2.4	7,330
Tax recoverable		56
Cash and cash equivalents	3.2.5	7,765
		30,038
Current liabilities		
Trade and other payables	3.2.6	3,384
Borrowings	3.2.7	5,245
Taxation		638
		9,267
Net current assets		20,771
		53,749
Financed by:		
Capital and reserves		
Share capital	3.2.8	13,765
Reserves		30,124
Shareholders' fund		43,889
Minority shareholders' interests	3.2.9	6,112
Long term and deferred liabilities		
Borrowings	3.2.7	144
Deferred taxation	3.2.10	3,604
		9,860
		53,749

3.2.1 Notes to the statement of assets and liabilities

(a) Basis of accounting

The statement of assets and liabilities are prepared on the historical cost basis except as disclosed in the notes to the statements of assets and liabilities and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) 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 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 Group 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.

(c) Property, plant and equipment

Property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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.

3.2.1 Notes to the statement of assets and liabilities (continued)

(c) Property, plant and equipment (continued)

Depreciation

Freehold land is not amortised. 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:

Factory buildings	2%
Hostels	2%
Plant and machinery	7%
Moulds	7%
Factory equipment	10%
Office equipment, furniture, fixtures and fittings	10% - 20%
Motor vehicles	20%
Renovation	10%

(d) Investments

Long term investments other than in subsidiaries, 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.

Investments in subsidiaries are stated at cost less impairment loss where applicable.

(e) Inventories

Raw materials and component parts, work-in-progress and manufactured inventories are stated at the lower of cost and net realisable value with weighted average cost being the main basis for cost. For work-in-progress and manufactured inventories, cost consists of raw materials, components, indirect materials, direct labour and an appropriate proportion of fixed and variable production overheads.

The cost of raw materials, components and indirect materials comprises the original purchase price plus the costs of bringing these inventories to their present location and condition.

(f) Trade and other receivables

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

(g) 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.

3.2.1 Notes to the statement of assets and liabilities (continued)

(h) Liabilities

Borrowings and trade and other payables are stated at cost.

(i) Hire purchases liabilities

Property, plant and equipment acquired under hire purchase agreements are capitalised at their purchase cost and depreciated on the same basis as owned assets. The total amounts payable under hire purchase agreements are included as hire purchase liabilities.

(j) Impairment

The carrying amount of assets, other than inventories and financial assets (other than investments in subsidiaries), 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.

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 is reversed if there has been a change in 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.

3.2.1 Notes to the statement of assets and liabilities (continued)

(k) 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.

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

1USD	RM3.80
1YEN	RM0.04
1SGD	RM2.32
1EURO	RM5.05

(l) Income tax

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.

3.2.1 Notes to the statement of assets and liabilities (continued)

(m) Employee benefits

(i) Short term employee benefits

Wages, salaries, bonuses and social security contribution are recognised as expenses in the year in which the associated services are rendered by employees of the Company. 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 absences occur.

(ii) Defined contribution plan

Obligation for contributions to defined contribution plan is recognised as an expense in the income statement as incurred.

(n) 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) Dividend income

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

(iii) Interest income

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

(o) Interest expense

All interest incurred in connection with borrowing is expensed as incurred.

The interest component of hire purchase payments is 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.

3.2.2 Property, plant and equipment

	Cost RM'000	Accumulated Depreciation RM'000	Net book value RM'000
Freehold land	3,612	-	3,612
Factory buildings	11,289	2,197	9,092
Hostels	102	25	77
Plant and machinery	30,644	14,962	15,682
Moulds	5,084	3,214	1,870
Factory equipment	977	713	264
Office equipment, furniture, fixtures and fittings	1,935	995	940
Motor vehicles	1,895	917	978
Renovation	1,083	620	463
Audited as at 31 December 2004	56,621	23,643	32,978

(a) Security

Freehold land and buildings of the NHC Group are charged to banks as security for borrowings.

(b) Assets acquired under hire purchase agreement

The net book value of property, plant and equipment acquired under hire purchase agreement is as follows:

	RM'000
Motor vehicles	687

3.2.3 Inventories

	RM'000
Raw materials and component parts	5,943
Indirect materials	763
Work-in-progress	1,556
Manufactured inventories	6,625
	14,887

Manufactured inventories of RM462,000 (2003 - RM452,000) are carried at net realisable value.

3.2.4 Trade and other receivables

	RM'000
Trade receivables	5,787
Other receivables, deposits and prepayments	1,543
	7,330

(a) Trade receivables

Included in trade receivables of the NHC Group is an amount of RM1,770,000 due from corporations in which certain Directors have substantial financial interests. The amount is unsecured, interest free and has no fixed terms of repayment.

3.2.5 Cash and cash equivalents

	RM'000
Cash and bank balances	7,765

3.2.6 Trade and other payables

	RM'000
Trade payables	2,082
Other payables and accrued expenses	1,302
	3,384

3.2.7 Borrowings

	RM'000
Current:	
Bills payable - secured	4,954
Hire purchase liabilities	291
	5,245
Non-current:	
Hire purchase liabilities	144
	5,389

(a) Bills payable

The bills payable are secured by way of:

i) a legal charge over the freehold land and buildings of NHC;
ii) a fixed and floating charge over all assets of NHC;
iii) a joint and several guarantee by certain Directors of NHC; and
iv) corporate guarantee.

The bills payable are subject to interest at rates ranging from 3.64% to 3.95% per annum.

(b) Hire purchase liabilities

Hire purchase liabilities are subject to interest at rates ranging from at 5.23% to 6.21% per annum based on the original balances of the hire purchase liabilities.

Hire purchase liabilities are payable as follows:

	Payments RM'000	Interest RM'000	Principal RM'000
Less than one year	313	(22)	291
Between one and five years	155	(11)	144
	468	(33)	435

3.2.8 Share capital

	RM'000
Ordinary shares of RM1.00 each:	
Authorised	15,000
Issued and fully paid	13,765

3.2.9 Minority shareholders' interests

This consists of the minority shareholders' proportion of share capital and reserves of a subsidiary.

3.2.10 Deferred taxation

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	RM'000
Property, plant and equipment	3,734
Provisions	(121)
Unabsorbed tax losses (pre-pioneer)	(9)
	3,604

3.2.11 Financial instruments

Financial risk management objectives and policies

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the NHC Group's business. The NHC Group's policies for managing these risks are summarised below:

Credit risk

The NHC Group's exposure to credit risk arises through its receivables. Management has an informal credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At balance sheet date, there were no significant concentrations of credit risk other than that disclosed in Note 3.2.4. The maximum exposure to credit risk for the NHC Group's are represented by the carrying amount of each financial asset.

Liquidity risk

The NHC Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the NHC Group's operations and mitigate the effects of fluctuation in cash flows.

3.2.11 Financial instruments (continued)

Interest rate risk

The NHC Group's exposure to interest rate risk arises through deposits, bank overdrafts and bills payable which are monitored on an ongoing basis.

The NHC Group places cash balances with reputable banks to generate interest income. The NHC Group manages their interest rate risk by placing such balances on varying maturities and interest rate terms.

Interest on bank overdrafts and bills payable are subject to market rate changes.

Foreign currency risk

The NHC Group incurs foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currencies giving rise to this risk are primarily US dollars, Japanese Yen, Euro and Singapore dollars.

The NHC Group does not have a fixed policy to hedge their sales and purchases in forward contracts. However, the exposure to foreign currency risk is monitored from time to time by management.

Effective interest rates and repricing analysis

In respect of interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

NHC Group	Effective interest rate %	Total RM'000	Within 1 year RM'000	1-5 years RM'000
Financial liabilities				
Bills payable	3.77	4,954	4,954	-

Fair values

In respect of cash and cash equivalents, trade and other receivables, trade and other payables and short term borrowings, the carrying amounts of the NHC Group approximates fair values due to the relatively short term nature of these financial instruments.

3.2.12 Event subsequent to the balance sheet date

There was no significant event that have arisen subsequent to the balance sheet date which requires disclosure in this report.

4 Cash flow statements

4.1 Company

The cash flow statements of the Company as set out below is based on the audited financial statements of NHR for the period ended 31 December 2004.

		RM'000
Cash flows from operating activities		
Profit before taxation		-
Changes in working capital:		
Other receivables		(581)
Other payables		581
Net cash generated from operating activities		-
Cash flows from financing activities		
Proceeds from issuance of shares		*
Net cash generated from financing activities		*
Net increase in cash and cash equivalents		*
Cash and cash equivalents at the date of incorporation		-
Cash and cash equivalents at end of period	*(i)*	*

Notes to cash flow statements

(i) Cash and cash equivalents

Cash and cash equivalents comprise:-

	RM'000
Cash and cash bank balances	*

* *RM2.00*

4.2 NHC Group

The cash flow statements of the NHC Group as set out below is based on the audited financial statements of NHC Group for the year ended 31 December 2004.

	RM'000
Cash flows from operating activities	
Profit before taxation	9,511
Adjustments for:	
Gain on disposal of quoted investments	(42)
Depreciation	3,336
Gain on disposal of investment in an associate	(1)
Gain on disposal of property, plant and equipment	(57)
Interest expense	315
Interest income	(106)
Property, plant and equipment written off	520
Operating profit before working capital changes	13,476
Changes in working capital:	
Inventories	(2,707)
Trade and other receivables	477
Trade and other payables	(2,062)
Cash generated from operations	9,184
Tax paid	(1,144)
Interest paid	(315)
Interest received	106
Net cash generated from operating activities	7,831
Proceeds from disposal of property, plant and equipment	67
Purchase of property, plant and equipment	(5,087)
Proceeds from disposal of quoted investments	73
Proceeds from disposal of investment in an associate	101
Net cash used in investing activities	(4,846)

4.2 NHC Group (continued)

		RM'000
Cash flows from financing activities		
Bills payable		(345)
Payment of hire purchase liabilities		(208)
Proceeds from issuance of shares		765
Net cash generated from financing activities		212
Net increase in cash and cash equivalents		3,197
Cash and cash equivalents at beginning of year		4,568
Cash and cash equivalents at end of year	*(i)*	7,765

Notes to cash flow statements

(i) Cash and cash equivalents

Cash and cash equivalents comprise:-

	RM'000
Cash and cash bank balances	7,765

5 Audited financial statements

No audited financial statements have been drawn up for any period subsequent to 31 December 2004.

Yours faithfully

KPMG
Firm Number: AF 0758
Chartered Accountants

Ng Kim Tuck
Partner
Approval Number: 1150/03/06 (J/PH)

11. VALUATION CERTIFICATE

(Prepared for inclusion in this Prospectus)

HENRY BUTCHER MALAYSIA

Date: 22 June 2005

The Board of Directors
Ni Hsin Resources Berhad
45, Jalan Taming Dua
Taman Taming Jaya
Off Jalan Balakong
43300 Selangor Darul Ehsan.

Dear Sirs,

VALUATION OF PROPERTY IDENTIFIED AS NOS. 45 & 47, JALAN TAMING 2, TAMAN TAMING JAYA, OFF JALAN BALAKONG, 43300 SELANGOR DARUL EHSAN.

This letter is prepared for inclusion in the prospectus in conjunction with the listing of NHR on the Second Board of Bursa Malaysia Securities Berhad.

The abovementioned property and its neighborhood were inspected on February 20, 2004. The material date of valuation is February 20, 2004.

We confirm that we have valued the property on the Valuation Basis stated below. The valuation has been carried out in accordance with the Guidelines on Asset Valuations for submissions to the Securities Commission (1995) issued by the Securities Commission, and also comply with the Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents Malaysia, and with the necessary professional responsibility and due diligence.

The basis of valuation adopted is the Market Value which is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

We have adopted the **"Comparison Method"** and counterchecked with the **"Investment Method"** of valuation to ascertain the Market Value of the subject property.

Comparison Method has been used to arrive at the Market Value of the subject property. This approach is the Market Approach of Comparing the subject property with similar properties that were either transacted recently or listed for sale within the same location or other comparable localities. In comparing properties, due consideration is given to factors such as location, size, building differences, improvements and amenities, time element and other relevant factors to arrive at our opinion of value.

HENRY BUTCHER MALAYSIA Sdn Bhd (160636-P)
No. 25 Jalan Yap Ah Shak, 50300 Kuala Lumpur, Malaysia
tel : 603 2694 2212 **fax** : 603 2694 5543
email : hblImal@po.jaring.my **www.henrybutchermalaysia.com**

valuation • marketing • consultancy • agency • management • plant & machinery

11. VALUATION CERTIFICATE *(Cont'd)*

In the "Investment Method", the capital value is derived from an estimate of the Open Market Rental which the subject property can reasonably be let for. Outgoings, such as property tax, repairs and maintenance, insurance and management are then deducted from the annual rental income. The net annual rental income is then capitalised at an appropriate current market yield to arrive at its indicative capital value.

We confirm that in our opinion the Market Value of the freehold unencumbered interests in the subject property in their existing physical condition and with the benefit of vacant possession using the valuation methods stated above is **RM 16,080,000 (Ringgit Malaysia: Sixteen Million And Eighty Thousand Only)**.

HENRY BUTCHER MALAYSIA SDN. BHD.

LONG TIAN CHEK
B.Sc., MRICS, MIS(M)
Registered Valuer (V-241)

LTC/zd

11. VALUATION CERTIFICATE *(Cont'd)*

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

A. Property held for owner occupied

Reference No.	Property (Title Details)	Description / Address	Market Value for Existing Use
V/R02-04/0175	The following details were obtained from private searches of the titles conducted at the Registry of Titles, Shah Alam on May 7, 2004. The particulars as obtained are assumed to be correct for the purpose of this valuation exercise. Title Nos. : HS(D) 38402 (formerly HS(D) 23490) & HS(D) 23491 Lot Nos. : PT 20620 & PT 20621 respectively Common features for both lots :- Mukim : Kajang District : Hulu Langat State : Selangor Darul Ehsan Provisional Land Area : 9,854.1817 sq. m. & 7,865.00 sq. m. respectively Tenure : Freehold Category Of Land Use : Perusahaan Express Condition : Perusahaan Restriction In Interest : Nil Registered Owner : Ni Hsin Corporation Sdn. Bhd. Encumbrances : PT 20620 i) Charged to Bank of Commerce (M) Berhad vide Pres. No. 54212/1995 Vol. 95 Fol. 157 dated November 1, 1995. ii) Charged to United Overseas Bank (Malaysia) Bhd. vide Pres. No. 54213/1995 Vol. 95 Fol. 158 dated November 1, 1995. PT 20621 i) Charged to Bank of Commerce vide Pres. No. 39768/1990 Vol. 478 Fol 77 dated November 15, 1990. ii) Charged to Bank of Commerce vide Pres. No. 31959/1993 Vol. 59 Fol. 121 dated August 19, 1993. iii) Charged to United Overseas Bank (Malaysia) Bhd. vide Pres. No. 32247/1994 Vol. 71 Fol. 187 dated July 29, 1994. iv) Charged to Bank of Commerce vide Pres. No. 54214/1995 Vol. 101 Fol. 172 dated November 1, 1995. v) Charged to United Overseas Bank (Malaysia) Bhd. vide Pres. No. 54215/1995 Vol. 101 Fol. 173 dated November 1, 1995.	The subject property comprises two (2) blocks of factory buildings and other ancillary structures erected on two (2) adjoining and contiguous parcels of industrial land measuring approximately 190,733 sq. ft. (4.379 acres) bearing postal address Nos. 45 & 47, Jalan Taming 2, Taman Taming Jaya, Off Jalan Balakong, 43300 Selangor Darul Ehsan. The type buildings erected on the subject property and the summary of their gross built-up area is as follows:- **Lot PT 20620 (No. 45, Jalan Taming 2)** Erected on the site are the following approved buildings and are considered in our valuation computation :- i) Two Storey Office Building ii) Single Storey Factory iii) Single Storey Canteen / Prayer Rooms iv) A Guard House v) TNB Sub-Station **Building** | **Gross Built-up Area (sq. ft.)** | **Gross Built-up Area (sq. m.)** Two Storey Office | 7,026 | 652.74 Single Storey Factory | 56,780 | 5,275.03 Canteen / Prayer Rooms | 3,542 | 329.06 A Guard House | 75 | 6.967 TNB Sub-Station | 608 | 56.48 **Total** | **68,031** | **6,320.27** The unapproved building / structures (not considered in our valuation computation) are as follows :- **Building** | **Gross Built-up Area (sq. ft.)** | **Gross Built-up Area (sq. m.)** Mezzanine Floor Office on top of Machinery Maintenance Room | 1,520 | 141.21 Single Storey Office within Factory Area | 490 | 45.52 **Total** | **2,010** | **186.73**	**RM 16,080,000**

11. VALUATION CERTIFICATE *(Cont'd)*

Cont'd

Reference No.	Property (Title Details)	Description / Address	Market Value for Existing Use
	Endorsements : PT 20620 Nombor Perserahan : 12488/2002 Perletahakan Oleh Mahkamah melibatkan Gadaian No. Pers. 32247/1994, 54215/1995 dari Overseas Union Bank (Malaysia) Berhad kepada United Overseas Bank (Malaysia) Bhd. mengikut No. Perintah D1-24-1-2002 dibawah Seksyen 420 KTN didaftarkan pada 1 April 2002. PT 20621 Nombor Perserahan : 12488/2002 Perletahakan Oleh Mahkamah melibatkan Gadaian No. Pers. 54213/1995 dari Overseas Union Bank (Malaysia) Berhad kepada United Overseas Bank (Malaysia) Bhd. mengikut No. Perintah D1-24-1-2002 dibawah Seksyen 420 KTN didaftarkan pada 1 April 2002. Lease : PT 20620 Nombor Perserahan : 29965/1992 Vol. 1 Fol. 33 Pajakan sebahagian Tanah kepada Tenaga Nasional Berhad bagi tempoh masa selama 30 tahun mulai dari 8 Januari 1991 dan berakhir pada 7 Januari 2021 didaftarkan pada 24 September 1992. PT 20621 Nombor Perserahan : 33246/1998 Vol. 1 Fol. 17 **Pajakan Seluruh Tanah** kepada Tenaga Nasional Berhad bagi tempoh masa selama 30 tahun mulai dari 15 Januari 1998 dan berakhir pada 14 Januari 2028 didaftarkan pada 24 Ogos 1998.	**Lot PT 20621 (No. 47, Jalan Taming 2)** Erected on the site are the following approved buildings and considered in our valuation computation :- i) Three Storey Office Building ii) Factory Area (Production) iii) Packing Area iv) Warehouse v) TNB Sub-Station / Switch Room / Compressor Room vi) Loading Platform vii) Guard House **Building** / **Gross Built-up Area (sq. ft.)** / **Gross Built-up Area (sq. m.)** Three Storey Office Building: 27,023 / 2,510.51 Factory Area (Production): 27,125 / 2,520.00 Packing Area: 15,823 / 1,470.00 Warehouse: 7,569 / 703.20 TNB Sub-Station / Switch Room / Compressor Room: 1,285 / 119.37 Loading / Unloading Platform: 3,785 / 351.60 Guard House: 65 / 7.53 **Total**: **82,675** / **7,682.21** There is an unapproved covered terrace between Lots PT 20620 & PT 20621 measuring approximately 9,500 sq. ft. (882.58 sq. m.) and is not included in our valuation computation.	

LONG TIAN CHEK
B.Sc., MRICS, MIS(M)
Registered Valuer (V-241)
LTC/zd

12. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in this Prospectus)

Infocredit D&B
Creating value...building trust

Infocredit D&B (Malaysia) Sdn Bhd *(527570-M)*
Level 9-3A, Menara Milenium, Jalan Damanlela,
Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia.
Tel: (603) 2718 1000 Fax: (603) 2718 1001
Website: www.icdnb.com.my

Date: 22 June 2005

Board of Directors
Ni Hsin Resources Berhad
45, Jalan Taming Dua
Taman Taming Jaya
off Jalan Balakong
43300 Selangor Darul Ehsan

RE: INDEPENDENT MARKET RESEARCH REPORT FOR NI HSIN RESOURCES BERHAD ("NHR")

This Report has been prepared for inclusion in the Draft Prospectus to be dated 30 June 2005 pursuant to the listing of NHR on the Second Board.

This research is undertaken with the purpose of providing an overview of the stainless steel cookware market in Malaysia. The objective of the research is to identify the market position of NHR within the stainless steel cookware sector.

The research methodology for the study includes primary research, which involves 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 ("Independent Market Researcher" or "IMR") 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. We acknowledge that if there are significant changes affecting the content of the Report after the issue of the Prospectus and before the issue of securities, the IMR has an on-going obligation to either cause the Report to be updated for the changes or withdraw our consent to the inclusion of the Report in the Prospectus.

An Executive Summary is highlighted in the following sections.

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

Tan Sze Chong
Managing Director

12. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

EXECUTIVE SUMMARY

1 DEFINITION AND BACKGROUND OF STAINLESS STEEL COOKWARE

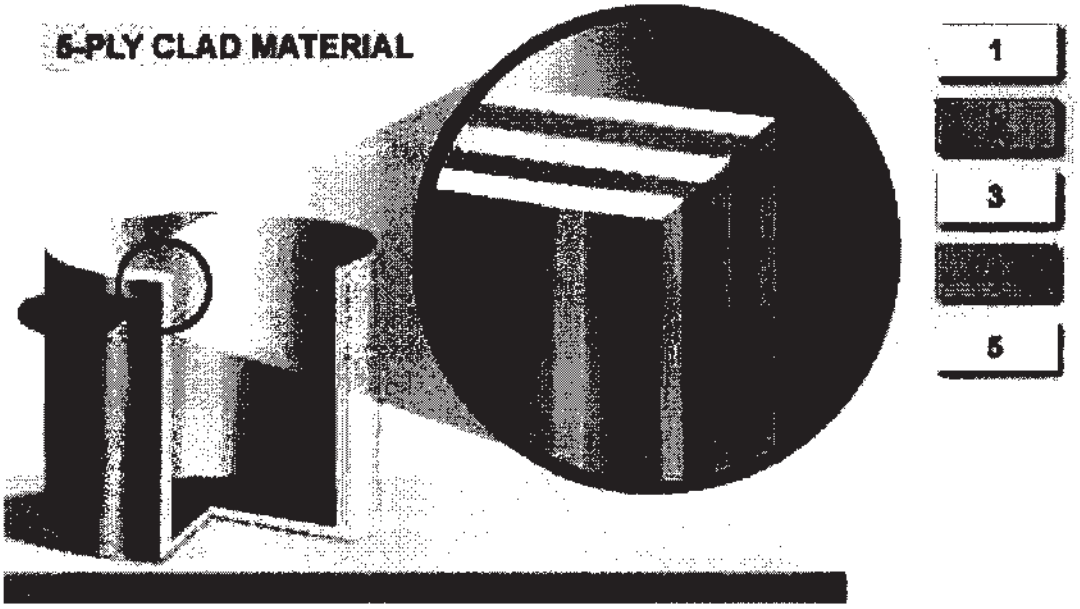
Stainless steel is created by adding chromium and nickel to steel. By adding chromium it gives the steel its unique corrosion-resisting properties by creating a rough, invisible, oxide film on the steel surface. However, its major disadvantage is that it does not conduct heat efficiently and evenly. In the stainless steel cookware market, there are generally three categories of cookware based on the type of stainless steel materials used as explained below:

Category	Description
Low-end stainless steel cookware	Single-ply stainless steel, i.e. cookware made using a single layer of stainless steel.
Medium-end stainless steel cookware	Stainless steel cookware with aluminium or copper plates bonded using sandwich bottom welding. This form of stainless steel cookware has aluminium or copper plates welded at the bottom of the cookware in order to improve its heat conductivity whilst the body of the cookware is made from single ply stainless steel. This type of cookware is more expensive due to the usage of sandwich bottom welding techniques.
High-end stainless steel cookware	Multi-ply stainless steel cookware, which is made from stainless steel-aluminium clad metals. Clad metals are composite materials made from different metals which are bonded together using bonding technologies such as diffusion, explosion and hot-rolling. The advantage of clad metals is that the end product combines the superior properties of each metal – strength, thermal and electric conductivity, corrosion resistance, lightweight and lower costs – to produce a metal superior to that of any of the individual metals taken alone.

1.1 MULTI-PLY STAINLESS STEEL COOKWARE

A multi-ply stainless steel cookware is made of three, five or as many as nine separate layers of metals that have been bonded together using hot-roll bonding technology. The inside and outside layers of the cookware are made of high grade stainless steel while the inside layers or in between layers are made of more conductive materials such as copper or aluminium. Multi-ply stainless steel cookware is expensive as the clad metals used are expensive raw materials and the manufacturing process is technically difficult compared to the single ply stainless steel cookware.

Figure 1: Illustration of 5-Ply Stainless Steel Clad Material



MAIN FEATURES	LAYERS
Excellent Heat Conductivity	1. #304 Stainless Steel
Even Heat Distribution	2. Pure Aluminium (1145)
Heat Preservation	3. Aluminium Alloy (3003)
Energy Saving	4. Pure Aluminium (1145)
	5. #304 Stainless Steel

Source: NHR Group

Among the advantages of stainless steel cookware are listed as below:

- Corrosion resistance
- Temperature resistance
- Flavour protection
- Economical
- Durability
- Cleanability
- Design Flexibility
- Attractiveness

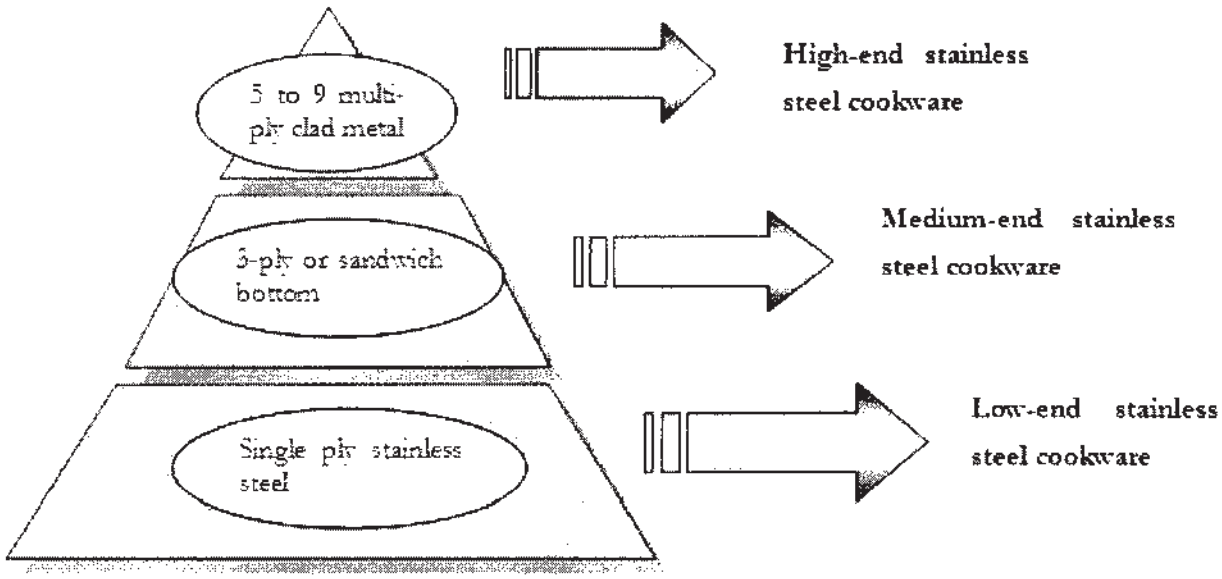
Meanwhile, multi-ply stainless steel cookware allows even heat flow when cooking and durability. Additionally, multi-ply stainless steel cookware which is manufactured using magnetic stainless steel makes it suitable for magnetic induction cooktops.

As there is consumer demand for non-stick cookware, the stainless steel cookware manufacturers have also produced non-stick stainless steel cookware. Non-stick cookware is specially coated with a high-grade material on the surface to prevent food from sticking on the surface whilst cooking. Not all non-stick coatings are the same. The highest quality coating that is normally used in cookware is PTFE (polytetrafloruoethylene) finishes. These are durable, high temperature resistant coatings. Sometimes the coatings are reinforced to provide resistance to scratching and are available in one, two or three coat finishes. The more coats and reinforcement, the longer the coating can last. The non-stick coating does not improve the heat conductivity capabilities. Non-stick coating is also available in other metal based cookware.

2 MARKET SEGMENT OF STAINLESS STEEL COOKWARE

The cookware industry in Malaysia is rather small as compared to other fabricated metal manufacturing industry. Nevertheless, it has quite a vast untapped potential due to the affluence of society in developed and newly industrialised countries where spending power tends to be higher in tandem with the rise in real income. In addition, it is also attributed to the advancement in technology such as induction cooking as well as introduction of new trends in various cooking styles involving the "East meets West" arising from changing lifestyles of modern society. In today's lifestyles, cooking is no longer confined to preparing food for consumption but rather as a style or art. Emphasis is given more to the way the food is prepared and maintaining the original flavours and nutrients of the food. In fact, several medium to high-end stainless steel cookware manufacturers in overseas have been collaborating with renowned chefs in their respective countries to promote quality cooking. In view that high quality cookware is very important, this has led to the increasing usage of multi-ply stainless steel cookware.

The stainless steel cookware in Malaysia can be segregated into the different segment of consumer markets. They are the low-end segment, medium-end segment and the premium or high-end segment as depicted in the following pyramid:



The low-end segment manufacturers or distributors mainly provide cookware made of low grade single-ply stainless steel material. However, the quality is very inferior and the pricing of this low-end cookware is highly elastic making it very cheap. Most of the cookware in this segment is either sourced from China, Thailand or manufactured locally. Examples of some of the brands in this category include Zebra from Thailand, 555 from China and Eagle brand (mainly aluminium cookware) from Malaysia. This segment of stainless steel cookware is very popular in Malaysia among the domestic households due to its cheap prices.

In the medium-end segment, cookware is made of higher quality stainless steel compared to the low-end cookware. It also incorporates better product designs in terms of the knobs and handles of the cookware. In this segment, stainless steel cookware with aluminium or copper sandwiched bottom is widely used together with high grade stainless steel. Examples of some of the brands in this category include Meyer from USA and Tefal from France.

Stainless steel cookware for the high-end or premium market is normally made of clad metals. Clad metals are actually a composite metal consisting of high quality stainless steel and other metal alloys bonded together by using hot-roll bonding technology. The high-end cookware is characterised by its durability, instant and even heat distribution as well as corrosive-resistance properties, apart from its aesthetic design of the cookware. The cookware is also highly polished to achieve a "mirror-like" surface to increase its aesthetic appeal.

Among the brands in this category include Buffalo from the NHR Group, Malaysia which are marketed through multi level concept of marketing, WMF from Germany, Alessi from Italy and Queen from USA. Queen cookware is also marketed through the multi level concept of marketing. It is distributed by Amway (Malaysia) Holdings Bhd.

Based on store checks and interviews conducted with selected cookware manufacturers/importers, all high-end stainless steel cookware in Malaysia are imported save for Buffalo brand which is manufactured locally in Malaysia by the NHR Group. For a brief summary, Table 1 illustrates the characteristics of the cookware in the different segments of segmented the industry.

Currently, there is no other significant manufacturer of high-end stainless steel cookware in Malaysia, due to the relatively high-entry barrier of the industry. This would include the technical and technology know-how of producing high-grade stainless steel cookware, heavy capital investment, high raw material cost due to the usage of multi-ply clad metals and renowned brand name to appeal to the high-end buyers. The lack of a strong brand name and high-end customer base would serve as a deterrent to potential players in this segment. Without it, this means potential players will have to bear a huge risk in terms of the massive capital outlay for the technical and technology know-how plus the necessary equipment to produce the high-grade stainless steel cookware. The NHR Group's track record as well as being a seasoned manufacturer in Malaysia has provided its brand with significant market penetration. Among the local cookware manufacturers, the NHR Group continues to expand its reach in Malaysia and overseas with its quality products and creating a greater barrier for any new entrants.

12. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Table 1: Malaysia: Market Segment of Stainless Steel Cookware By Pricing and Materials Used

Market Segment	*Materials Used*	*Source*	*Brand*	*Type*	*Price Range (RM)*
High-end	Mainly uses multi-ply clad metals ranging 5 to 9-ply	Imported	Queen	Other Cookware (set)	1,100 to 1,250
		Imported	WMF	Pressure Cooker	650 -1,400
				Other Cookware	400 - 700
		Imported	Alessi	Pressure Cooker	700 – 1000
				Other Cookware	500 – 800
		Local Manufactured (by NHR Group)	Buffalo	Pressure Cooker	650 – 1,200
				Other Cookware	300 – 800
Medium-end	Mainly uses 3-ply clad metals or sandwiched bottom	Imported	La gourmet	Other Cookware	70 – 700
		Imported	Meyer	Other Cookware	60 – 400
		Imported	Innova	Pressure Cooker	200-400
		Imported	Tefal	Pressure Cooker	200 – 900
				Other Cookware	300 – 500
Low-end	Mainly uses single-ply stainless steel	Imported	Zebra	Pots	29 – 90
				Other Cookware	29 – 70
		Imported	555	Pots	29 - 50
		Local Manufactured (by Central Aluminium Manufactory Sdn Bhd*)	Eagle	Other Cookware	10 – 50
				Pots	10 – 50
		Local Manufactured (by ODM/OEM)	Metro	Other Cookware	10 – 50
				Pots	30 – 50
		Local Manufactured (by Kemasik Industries Sdn Bhd)	Home+Plus	Pots	20 – 50

Notes:
Other cookware for medium-end and high-end consists of wok, pot, pan and fryer
** A subsidiary of CAM Resources Berhad*
Source: Infocredit D&B, Store checks at major departmental stores in Klang Valley

3 INDUSTRY SUPPLY AND DEMAND

3.1 SUPPLY

Based on the stores check conducted for the purpose of this report and other secondary research, it is noted that supply for high-end stainless steel cookware for brands such as Queen, WMF and Alessi are imported with the exception of the brand, Buffalo, which is being manufactured by NHR Group and only available through direct selling.

On the other hand, low-end brands such as Eagle and Home + Plus are manufactured locally whilst the rest is either through OEM/ODM or imports directly from countries like Thailand and China.

3.2 DOMESTIC DEMAND

Analysis of demand for stainless steel cookware will be focusing on two market segments namely the household sector and commercial sector such as restaurants. These two segments are the major consumer of cookware products.

KEY DEMAND DRIVERS

- **Household Population**

The household segment is the main demand driver for cookware as cooking is a necessity in every household. As the society evolves and the economy expands, the number of household increases and becomes more affluent. Therefore, demand for cookware tends to depend on the innovative design and its function as convenient and healthy cooking tools.

Based on the housing census conducted in 2000, there are a total of 4.9 million households in Malaysia in 2000, whereby the urban population reaches 3.1 million households. Urban level, measured by the number of urban households as compared to the total households, stands at 63.5% compared to only 25.6% in 1970.

Total households have been growing at an annual compounded growth rate of 3.2% (1970-2003), while the growth rate in urban households was 6.4%. This is attributed to rapid development and urbanization rate undergone by Malaysia for the last 30 years.

Table 2: Malaysia: Household Population 1970-2004 Q3

Demography Indicators	*1970*	*1980*	*1991*	*2000*	*2001*	*2002*	*2003*	*2004 Q3*
Urban Population ('000)	483.5	860.4	1,818.4	3,119.4	N/a	N/a	N/a	N/a
Rural Population ('000)	1,406.7	1,655.9	1,748.5	1,791.6	N/a	N/a	N/a	N/a
Urbanization Level (%)	25.6	34.2	60.0	63.5	N/a	N/a	N/a	N/a
Total Household ('000)	1,890.2	2,516.3	3,566.9	4,911.0	5,5054.6	5,195.7	5,329.1	5,591.0

Sources: Department of Statistics & Euromonitor

12. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

➢ **Household Income**

Concurrently, the monthly household income in Malaysia has risen from a mean RM2,472 in 1999 to RM3,011 in 2002 (21.8% growth). The RM3,000 and above monthly household income segment constituted 32.5% of the total monthly household income distribution in 2002.

Table 3: Malaysia: Distribution By Monthly Gross Household Income 1999 & 2002

Income Class (RM)	1999 (%)	2002 (%)
499 and below	6.0	3.7
500 – 999	19.0	15.3
1,000 – 1,199	8.1	6.9
1,200 – 1,499	10.7	9.5
1,500 – 1,999	13.9	13.4
2,000 – 2,499	10.1	10.4
2,500 – 2,999	7.3	8.3
3,000 – 3,499	5.7	6.3
3,500 – 3,999	3.9	4.7
4,000 – 4,999	5.5	6.7
5,000 and above	9.8	14.8
TOTAL	**100.0**	**100.0**
Mean Income (RM)	2,472	3,011
Median Income (RM)	1,704	2,049
Gini Coefficient	0.4432	0.4607

Source: Mid-Term Review Eight Malaysia Plan

In view of the above, it can be observed that demand for premium cookware mainly come from the urban population, which generally has a higher disposal income and standard of living. Besides, only with such level of disposable income, a household is able to indulge in luxurious and classy cookware. This is aided by the fact that income level has improved significantly during the last four years.

➢ **Real Gross Domestic Product ("GDP") Per Capita**

Table 4: Real GDP Per Capita Year 1999-2004 Q3

	1999	*2000*	*2001*	*2002*	*2003*	*2004 Q3*
Real GDP (RM million)	193,422	210,557	211,227	219,988	231,674	247,880
Population (million)	22.719	23.4949	24.0129	24.530	25.048	25.580
Real GDP Per Capita (RM)	8,514	8,962	8,796	8,968	9,249	9,690
Growth (%)	-	5.3%	-1.9%	2.0%	3.1%	4.8%

Source: Department of Statistics

12. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

In addition, the real GDP growth of Malaysia for the past four (4) years grew from 0.3% in 2001, to 4.1% in 2002, 5.3% in 2003 and 7.1% in 2004. In view of the optimism in sustained domestic demand and visible improvement in global economy, Bank Negara Malaysia has raised the GDP forecast to between 5.0% and 6.0% in 2005.

In tandem with the improvement in economic performance for the past three years, real GDP per capita dipped 1.9% in 2001 before rebounding at 2.0% in 2002, and recorded a 3.1% and 4.8% increase in 2003 and 2004 respectively. Real GDP per capita is projected to continue to grow in line with the forecasted robust real GDP growth in 2005.

Table 5: Peninsular Malaysia: Housing Approval for Private Sector 1999-2004 Q3 (Unit)

	1999	2000	2001	2002	2003	2004 (Jan – Sep)
Housing approval	183,041	214,290	227,260	198,970	205,518	138,286

Source: Bank Negara Malaysia

To narrow down the relationship between demand for stainless steel cookware with real GDP per capita, we can associate the expected demand by the number of new housing approval. All new houses will need to install a kitchen. Thus, the higher the demand for new homes may also filter down to higher stainless steel cookware demand.

The housing approval rose from 198,970 in 2002 to 205,518 in 2003, an increase of 3.3%. From January to September 2004, total approval was 138,286. The continued improvement in the Malaysian economy plus an improving stock market performance will continue to drive demand for new homes.

- **Consumer Expenditure on Hotels and Catering**

Table 6: Malaysia: Consumer Expenditure on Hotels and Catering 1998-2010* (RM Million)

	1998	1999	2000	2001	2002	2005f	2010f	Growth % (1990/2010)
Hotels and Catering	15,849	17,978	19,400	20,173	20,860	23,287	29,577	202.3

Notes:
**Estimations by Euromonitor based on trade sources and industry publications*
f - forecast
Source: Euromonitor

The other segment that is expected to drive demand for the stainless steel cookware is the hoteliers and caterers category. Four- and five-star hotels will generally purchase high-end cookware for the quality and durability of the products.

The consumer expenditures on hotels and caterings totalled RM20.9 billion in 2002, estimated to grow to RM23.3 billion and close to RM30.0 billion by 2005 and 2010 respectively. It was a significant improvement from RM15.8 billion recorded in 1998, RM18.0 billion in 1999, RM19.4 billion in 2000, and RM20.2 billion in 2001. Domestic demand for stainless steel cookware from the commercial sector is also projected to rise. The outlook on the global as well as the domestic economy looks increasingly positive. All sectors of the domestic

economy including the services sector are expected to expand in tandem with the robust outlook. The services sector rise to 6.0% in the first quarter 2005 from 6.4% registered in 2004. The food and restaurant industry, which represents part of the services sector, is expected to benefit from this positive outlook. Due to the cultural diversity of the Malaysian society, it is known as a food haven for variety type of foods. Taking advantage of this, many restaurants and food outlets have been set up mixing the influence of Eastern and Western cooking. Therefore there is a high demand for high quality stainless steel cookware that can further enhance the quality of fusion cooking.

4 INDUSTRY LIFE CYCLE

Cookware comes in a variety of materials – non-metal type which consists of ceramic, plastic and glass whilst the metal type comprises stainless steel, aluminium, copper and a combination of materials.

Even though cookware has been around for ages, the breakthrough in technology has harnessed greater application to cookware, whether in terms of durability or greater ease of cooking using superior materials technology to evenly spread the heat during cooking. Effectively, this evolution has changed the popularity of certain materials over the others. Stainless steel cookware has been used for quite sometime now. The difference is that manufacturers have managed to innovate and come out with different versions and combinations to incorporate in the stainless steel cookware, for example clad metal is a combination of stainless steel and aluminium. Cookware made of clad metals is of better quality and usually priced on the higher-end of the stainless steel cookware market.

Nowadays, stainless steel cookware has more added features like non-stick bottoms, wear resistance, more durable, corrosion resistance, even heat distribution and retention, and mirror-like surfaces.

The multi-ply stainless steel clad metals cookware is also driven by the latest form of cooking known as "induction cooking". This form of cooking is fast catching on as the one of the most efficient, safest and cost-efficient cooking methods in Malaysia and developed countries. Induction cooking uses the pan as the heat source of the cooking system, where a high induction coil under a ceramic cooktop creates magnetic friction within the pan to cook the food, without heating the cooktop surface itself. The pan will heat up in the same way as the traditional electric or gas top cookers. Induction cooking is safer and cheaper than the traditional methods as it does not require any flammable gases for cooking thus, providing a better heat control simultaneously with no preheats required.

The safe, efficient and cost-saving characteristic is expected to spur the growth in demand for this category of cookware and its peripheral products, especially in the restaurants and urban households where these properties are highly essential.

5 INDUSTRY LINKAGES

Stainless steel cookware is mainly dependent on the consumer market and the food and beverage industry especially the restaurants segment. These two markets represent the major consumers of stainless steel

cookware. Coupled with changing lifestyles and hectic schedules, it augurs well for the restaurant business as more eatery outlets and restaurants are set up to cope with the increasing demand of eating out.

Besides that, the stainless steel cookware industry is also closely linked to the primary metal industry for its raw materials. Therefore the shortage of steel and high prices of steel indirectly will have negative impact on the raw materials for the stainless steel cookware industry.

6 OEM/ODM

There is an increasing trend in the outsourcing of cookware manufacturing to OEMs and ODMs. The outsourcing generally flows to the Asian region to capitalise on the low labour cost, ala the semiconductor industry.

OEMs are contract manufacturers for other brand names while ODMs originate the design and propose to clients, manufacture and sell back to the customer who then concentrates on marketing and own branding. The difference between OEMs and ODMs is mainly on the R&D capability. ODMs have the proprietary R&D capability that originates the technology and designs.

ODMs have the advantage of having an in-house brand name for the products where they could retail. Unlike OEMs, which only manufacture for other brands and depend on the resellers' performance to generate higher revenue. Moreover, ODMs' revenue can be controlled as it manufactures and retails its own products i.e. changing prices, profit margin control and expansion plan, whereas in the case of OEMs, their businesses would follow the ups and downs of the resellers. Revenue is more sustainable as the ODM has proprietary R&D capabilities, enabling the ODM to continuously design and manufacture new products with the latest technologies and in line with consumer trends. For example, a number of local OEMs for the semiconductor and computer industry in Malaysia have shut down as some of these resellers relocate overseas.

The trend to outsource cookware manufacturing to Asia is no coincidence and not purely due to labour cost. A lot of firms have either set up a plant or seek ODMs to carry their brands here, as they try to capitalise on the huge population base and rising income level and standard of living.

NHR Group, besides manufacturing and distributing its own brand name, Buffalo, is also engaged in both OEMs and ODMs for other medium and high-end brands. Moving forward, the segment of high-end stainless steel cookware manufacturers such as NHR Group has the advantage of not being overly overwhelmed by price competition in view of its R&D, manufacturing technology and the economies scale, to provide a mixture of quality and price that will suit the European and American high-end cookware retailers. Further, cookware manufacturers in Thailand and China are still mainly focused on the low-to-mid end market. Their main strength is based on labour cost competitiveness rather than quality.

6 BARRIERS TO ENTRY / EXIT

EXTENSIVE CAPITAL INVESTMENT

The high-end stainless steel cookware industry is considered capital intensive in view of the significant amount of expenditure requires for setting up and equipped the facility with extensive machinery to produce end-products. Especially for the high-end stainless steel cookware segment, the products must be of very high quality to meet the discerning customers' demands and to justify the premium pricing. Hence, the high-end stainless steel cookware manufacturer must invest in various machineries such as auto-polishing machines, hydraulic press machines, forming and shearing machines, spot welding machines and laser marking machines in order to produce finished products that are consistent in quality. Furthermore, machinery handling key production processes must be custom-made based on the management's specifications.

R&D CAPABILITIES

The stainless steel cookware industry is highly competitive at the low-end market due to the large number of local manufacturers and imported products from countries such as Thailand, India and China. The low-end market is characterized with low barriers of entry due to the lower capital investments, simple product designs and features, usage of single-ply stainless steel/aluminium as the raw material and virtually low R&D requirements.

Conversely, the high-end market segment of the stainless steel cookware industry requires continuous investment into R&D expenditure for improvement in every aspect of the cookware in order to meet customers' demands, especially for the ODM market where customers tend to request for different specifications that entail extensive R&D. Manufacturers of high-end stainless steel cookware need to have the technical experience and know-how and raw materials developments, special production processes, product trends and consumer preferences in order to compete in this high-end market segment. In addition, for the pressure cooker export market, the manufacturer has to meet product stringent safety requirements from regulating bodies such as Japan's SG and USA's UL.

EXPORT MARKET AND DISTRIBUTION CHANNEL

The stainless steel cookware industry needs to establish export markets in order to ensure growth as the local cookware industry is competitive, namely within the low-end market segment, given the large number of players and complementary products made of other materials such as ceramics, glass, plastic and aluminium. A reliance on the local cookware market would not provide the manufacturer with extensive growth and would subject the manufacturer to a limited market potential. In order to operate profitably and to expand, an overseas market and distribution channel has to be established. It can be direct export to the final destinations, appointment of distributors/agents to carry the brand name and engage in contract manufacturing for OEM/ODM for other reputable brands. New entrants may face difficulties in establishing such overseas markets due to the constraint in distribution channels.

ESTABLISHED BRAND NAME

High-end stainless steel cookware tends to be closely associated with a brand name as it represents quality and aesthetic value to the customers. In addition, such brand normally provides a lifetime guarantee on its product to further harness consumer confidence and bind the value of money to its quality. As such, manufacturer has to establish a brand name that is reputable, proven product quality and perceived value for money. Such brand names would require time and significant investment to nurture and build. New entrants may not be able to compete effectively without adequate capital against more established manufacturers to establish its brand name. Advertisements and promotions are required to create brand awareness and to project premium quality. Failing which, the competitor would not be able to penetrate the high-end market segment.

PRICING

The high-end stainless steel cookware manufacturer would need to price its products higher in terms of monetary value due to its expensive raw materials. At the same time, such pricing must be competitive enough against its competitors of the same tier as the Malaysian consumers are price sensitive given the GDP per capita is not as high as the developed nations. Majority of the high-end stainless steel cookware manufacturers are from developed nations such as Switzerland, Italy, Spain, Germany and the USA. Their products would normally be more expensive due to import taxes, currency conversions and higher cost of production incurred in developed nations relative to developing countries such as Malaysia as a result of, mainly, higher labour and energy costs. Imported high-end stainless steel cookware is imposed with 20% custom duty and 10% sales tax.

PROPRIETARY PRODUCTS AND OWN MANUFACTURING FACILITIES

A foreign brand would need to appoint a local distributor/agent or set up its own marketing office in Malaysia in order to penetrate the local market. Being an imported product, the local distributor/agent would have to rely on the foreign manufacturer's support to service the local customers. This would render the agent less competitive as the products replacements for faulty or guaranteed parts have to be imported, increasing the lead time and at a higher replacement cost.

7 GOVERNMENT LEGISLATIONS / POLICIES / INCENTIVES

Although the stainless steel cookware industry is small in relative to the overall manufacturing industry, there are still many government incentives given to further encourage the growth of the industry. Among the incentives given by the government include:

- **Tax exemption on the value of increased exports**

  To promote exports, manufacturing companies in Malaysia qualify for :

  - The tax exemption on the statutory income equivalent to the 10% of the value of increased exports, provided that the goods exported attain at least 30% value.-added; or
  - A tax exemption on the statutory income equivalent to 15% of the value of increased exports, provided that the goods exported attain at least 50% value-added.

To further encourage the export of Malaysian goods, a locally-owned manufacturing company with Malaysian equity of at least 60% is eligible for:

- A tax exemption on the statutory income equivalent to 30% of the value of increased exports, provided the company achieves a significant increase in exports;
- A tax exemption on the statutory income equivalent to 50% of the value of increased exports, provided the company succeeds in penetrating new markets;
- A full tax exemption on the value of increased exports, provided the company achieves the highest increase in export in its category.

- **Incentives for Research and Development**

A company that undertakes in-house R&D to further its business can apply for an ITA of 50% on the qualifying capital expenditure incurred within 10 years. The company can offset the allowance against 70% of its statutory income in the year of assessment.

Some of the tax incentives available in Malaysia which are applicable to the NHR Group are as follows:-

- ***Pioneer Status***

  Companies manufacturing promoted products or undertaking activities will be granted a 100% exemption of income tax, i.e. on 100% of the statutory income for five (5) years.

- ***Investment Tax Allowance (ITA)***

  This incentive is extended to companies participating in a promoted activity in Malaysia or in the production of a promoted product, particularly companies involved in the sectors of manufacturing, agriculture, hotel and tourism business. Companies which obtained ITA approval are given a flat rate of 60% of qualifying capital expenditure incurred for the purpose of the promoted activity or product for 5 years.

- ***Reinvestment Allowance***

  The Reinvestment Allowance is given to manufacturing and agriculture companies which are undertaking expansion, modernisation and diversification activities in its existing business into any related product within the same industry. Companies with approved reinvestment allowance are given a flat rate of 60% reinvestment allowance in respect of qualifying capital expenditure and the allowance can be utilised to set off up to 70% of statutory income in the assessment year. For qualifying projects undertaken in the Eastern Corridor of Peninsular Malaysia or Sabah, Sarawak and Labuan, the reinvestment allowance will be set-off against 100% of statutory income.

- ***Double deductions***

  Double deductions are granted for non-capital expenditure incurred on R&D approved by the Inland Revenue Board, and approved expenditure incurred for the purpose of seeking, creating or increasing opportunities for export of goods or agriculture produce, manufactured produced, assembled, processed, packed, graded or sorted in Malaysia, are also eligible for double deductions.

8 COMPETITIVE ANALYSIS

8.1 COMPETITIVE ENVIRONMENT

In terms of domestic market, there is not much direct competition among local stainless steel cookware manufacturers as the market is segregated into three (3) different segments – low-end, medium-range and high - end. Apart from the NHR Group which has positioned itself in the high-end segment through its manufacturing facilities, there is no other local manufacturer in the high end segment. Nevertheless, low pricing from low end and medium-range manufacturers and imported high-end cookware does pose a threat to the NHR Group's market share.

As compared with the local manufacturers, the NHR Group dominates the cookware manufacturing industry in terms of exports. This can be observed from the NHR Group's cookware revenue for 2004 as tabled below:

Table 7: NHR Group's Cookware Revenue for FYE 2004

Key cookware markets	*RM'000*	*% of Total Revenue*
Export markets		
Japan	15,882	50.5%
USA & Canada	1,744	5.5%
Europe	1,522	4.8%
Hong Kong	3,427	10.9%
Taiwan	4,024	12.8%
Others	2.050	6.5%
Export revenue for cookware	**28,649**	**91.1%**
Malaysia	2,796	8.9%
Total cookware revenue	**31,445**	**100%**

Source: NHR Group

Based on export statistics in 2004, Malaysia's exports were valued at approximately RM39 million. NHR Group's export revenue for cookware in 2004 was close to RM29 million which contributed 74% to the total stainless steel kitchenware and cookware export market in Malaysia.

Meanwhile, stiff competition is expected in the export market as the players are more established and well known. Brands such as WMF, Alessi, Kuhn Ricon, All Clad, Demeyere, Tefal and Meyer are quite well known all over the world. Furthermore, the different lifestyles and diverse culture in the export market demands different type of cookware. Therefore to capture a portion of the export market, the NHR Group needs to be more aggressive in widening its marketing strategy.

The prospects of high-end stainless steel cookware at the moment can be considered export based. In view of the competition level is mainly from international players, it is imperative for export based company such NHR Group to look at competition from the global point of view. The IHA, International Housewares Association, estimates the global housewares industry, which includes items outside the scope of this report, to be worth some USD 283 billion in annual sales. As far as global supply is concerned, China is a major exporter of household goods. The country has been a full member of the World Trade Organization (WTO) since December 2001, but was subject to restrictions on its exports amid concern that, as a primary producer with low labour costs, it would flood Western markets with cheap cookware and tableware. However, these restrictions are only to be in force for a limited period after which the European Union ("EU") is likely to be inundated with products that it will find impossible to match on cost.

Presently, low-end cookware from Thailand e.g. Zebra, has already reached Malaysia's shore. However, the main positioning of these products is still targeted at the lower end of the market, a different segment from NHR Group. These Chinese manufacturers are essentially producing for its own market and for exports. Although China is undergoing a robust economic expansion in the last couple of years, its overall standard of living has not yet reached the standard of developed countries. Thus the market for high-end stainless steel cookware in China has not flourished. It is therefore deduced that the potential switch of these manufacturers to high-end market will not be so swift and in the foreseeable future, NHR Group's position as a high-end stainless steel cookware producer in Malaysia will not be much threatened by China's cookware makers.

8.2 COMPARATIVE ANALYSIS

For the purpose of this report, 11 major cookware manufacturers have been identified as tabled below. It consists of manufacturers involved in both the metal and non-metal based cookware.

Table 8: Malaysia: Major Cookware Manufacturers, 2003

Company	*Multi-ply Stainless Steel*	*Single-ply Stainless Steel*	*Aluminium*	*Others*
Ni Hsin Resources Berhad	X			
World Kitchen ATG (M) Sdn Bhd				X
Rey Hin Industry Sdn Bhd		X	X	
S. S. Luxware (M) Sdn Bhd		X	X	
Kemasik Industries (M) Sdn Bhd		X	X	
Chun Huat Metal Industries Sdn Bhd[1]		X		
Metal Deck Corporation Sdn Bhd[2]		X	X	
Central Aluminium Manufactory Sdn Bhd*		X	X	
Central Melamineware Sdn Bhd*				X
Ban Heng Long (M) Aluminium Ware Manufacturing		X	X	
Rubysteel Metal Industry Sdn Bhd		X		

Notes:
1. According to Chun Huat Metal Industries, they are engaged in manufacturing of electric kettle for Matsushita company
2 According to Metal Deck Corporation, they are currently not in the cookware industry as the business had been sold of
**A subsidiary of CAM Resources Bhd*
Sources: ROC and Infocredit D&B

8.3 BRIEF PROFILES OF KEY PLAYERS

Based on the above table, it has been further narrowed down to 7 local key players in the stainless steel cookware industry. The brief profiles of these players are listed as follows:

Table 9: Malaysia: Major Manufacturers of Cookwares, 2003

Name	*Co. Reg. No*	*Brands*
Central Aluminium Manufactory Sdn Bhd[1]	44445-V	Eagle
Ni Hsin Corporation Sdn Bhd	185578-V	Buffalo, OEM/ODM
Rubysteel Metal Industry Sdn Bhd	141606-T	Zirafah, Ruby
Kemasik Industries (M) Sdn Bhd	189633-D	Home+Plus
Rey Hin Industry Sdn Bhd[2]	252667-P	Reynox
Luxware (M) Sdn Bhd (formerly known as S.S. Luxware (M) Sdn Bhd)	177985-P	Averti and contractors for other brands
Ban Heng Loong (M) Aluminium Ware Manufacturing[3]	N/A	N/A

1) A subsidiary of CAM Resource Bhd
2) According to auditors of the company, the factory had ceased production. As such, financials reported is only available up to FYE 1998
3) Based on the latest search conducted at ROC, no information is available
Sources: ROC and Infocredit D&B

Among the local manufacturers, the NHR Group appears to be the only manufacturer engaged in the manufacturing of high-end stainless steel cookware using multi-ply clad metals as the rest such as CAM Resources Bhd, are using either single-ply stainless steel or aluminium which is in the low-end market segment. Therefore, competition among local manufacturers within Malaysia is fairly low. Essentially, the target market for these local players as compared to the NHR Group is different. Therefore, they are not considered to be direct competitors to the NHR Group in the local market.

Meanwhile, in the export market stiff competition is expected from the high-end cookware's main exporting countries in Europe, United States and Korea. Some of the key competitors in the export market are:

- Meyer International Holdings
- Groupe SEB
- Lagostina from Italy
- Kuhn Rikon AG from Switzerland
- WMF from Germany
- All-Clad Metalcrafters LLC
- Regal Ware Inc and Vitacraft Corporation from USA
- Demeyere N.V from Belgium
- Woosung Co Ltd and Sae Kwang Aluminium Co Ltd from South Korea

8.4 PRODUCT SUBSTITUTES

Generally, there is product substitutability from the glass and ceramic ware as well as from the plastic cookware. This is due to the changing and hectic lifestyles of the urban society. As with most modern household today, both parents are working and there is limited time devoted for cooking. Most households would prefer the easier and faster way of cooking through the microwave oven. Due to this most cookware made for microwave cooking were glass, ceramic and plastic cookware.

Nevertheless, the threat is still minimal as these cookware (glass, ceramic and plastic) cannot withstand intense heat when cooking on normal cooktop, are breakable (glass and ceramic) and cannot be used for induction cooking. Stainless steel cookware is the most preferred choice among many households due to its non-corrosive nature and durability as it does not break.

Most of the high-end/premium cookware manufacturers in the world e.g. Meyer, Group SEB, WMF, and All-Clad, use multi-ply stainless steel in their range of products. This is in recognizance of the durability and versatility of multi-ply stainless steel.

8.5 DEPENDENCY ON IMPORTS & ITS VULNERABILITY

Stainless steel cookware industry is highly dependent on the imports of raw materials such as stainless steel and PTFE. The NHR Group faces this dependency as it cannot source for local production of high quality stainless steel. Thus, it has to import most of the high quality stainless steel from Japan.

PTFE is essential in the manufacturing processes as it creates outstanding coating adhesion for the non-stick coating process. PTFE is inert to virtually all chemicals and is considered the most slippery material in existence. PTFE fluoropolymer resin is listed in the Guinness Book of World Records as the world's most slippery substance. PTFE is sourced from key suppliers such as DuPont. In 1990, U.S. President George Bush presented the National Medal of Technology to DuPont for the company's pioneering role in the development and commercialization of man-made polymers over the last half century. DuPont coined the Teflon® trademark, and consists of PTFE, as the pioneer in the invention of PTFE. PTFE has become a familiar household product, recognized worldwide for the superior non-stick properties associated with its use as a coating on cookware and as a soil and stain repellant for fabrics and textile products.

8.6 IMPORT SUBSTITUTION

Most of the stainless steel cookware sold in Malaysia are imported from overseas especially from Thailand, China, Hong Kong and India, which are well known for its single ply stainless steel cookware. However, these cookwares are mainly catered to the lower range of the market where the pricing is the main criteria in selecting their cookware. On the other end, high-end cookware is also experiencing the same trend whereby these cookware are imported from countries such as Italy, France, USA, and Germany.

In view of the above, NHR Group's cookware and clad metals have great growth potential in the area of import substitution in particular to the high-end cookware due to its in-house technology and lower selling price as compared to the imported high end brands. In other words, NHR Group, which priced its products in the lower-to-medium end of the high-end market, will have price competitiveness, without sacrificing the quality as it manufactures its products locally, which gives it a major advantage over the imported high-end brands.

8.7 CRITICAL SUCCESS FACTORS

Critical success factors for the high end stainless steel cookware industry include the following:

- **Product Design**

  Different type of stainless steel cookware is distinguished from each other based on its raw material, design, sizes and technology used. Therefore stainless steel cookware made from clad metals is far more superior than normal single ply stainless steel cookware. This is due to the advantages derived from using clad metal that combines the superior properties of different metals to create a metal superior to that of any individual metals taken alone. The use of non-stick coatings such as PTFE on the surface of the cookware to prevent food sticking on the surface when cooking also enhances the appeal of using stainless steel cookware.

- **Cost Efficiency**

  Due to the nature of stainless steel cookware industry that depends heavily on import of its machinery and raw materials, cost efficiency plays an important role in the determining the success of the firm in the industry. In NHR Group's case, most of its raw materials are sourced from EGAM, its related company, thus lowering its operating costs compared to other players.

- **Product R&D**

  Great emphasis and attention given to R&D in all areas of manufacturing will further improve the product quality and design of the stainless steel cookware. NHR Group's R&D facility is fully equipped with advanced design software to assist in translating innovative sketches into prototype designs, which are then developed into detailed engineering drawings. Due to its efforts into R&D, NHR Group diversified its product range from cookware to the design and manufacture of Stainless Steel Convex Mirrors. This product is made from superior finishing stainless steel, precisely polished to perfection for a 'mirror finishing' look.

- **Quality**

  A quality stainless steel cookware that achieves worldwide quality standards is widely accepted by most consumers. Therefore every product whether new or existing produced by NHR Group undergoes stringent quality tests which conformed to all standards under UL (USA), IH CH SG (Japan) and CNS (Taiwan). NHR Group has received numerous quality recognition certifications from various bodies including SG Standard from Japan and the ISO9001 award by SGS in 1998. In 2002, it was given the prestigious IH CH SG certification that certifies the company is qualified to produce pressure cookers and induction cookware

8.8 RISK FACTORS & VULNERABILITY

NHR, through EGAM, imports high quality stainless steel from Japan, leaving it with exchange risk and supply risk. The exchange risk will also expose NHR Group to price risk due to fluctuation in foreign currency. Nevertheless, NHR Group has a natural hedging as its sales are billed in USD to its customers, and its purchases are billed in USD.

The current shortage of steel supply in the world might also increase the price of the stainless steel in Japan. Most of the constraints in supply are caused mainly by China's heavy accumulation of steel. The recent policy to slow down its growth to avoid overheating will provide some breathing space for the steel industry and this is expected to stabilize the price of steel.

As mentioned, the demand for NHR Group's products is correlated with the performance of the Malaysian economy, which in turn is sensitive to the global economy. Any sudden and unanticipated change of geopolitical events for example terrorist attack will shock the system and causes growth to lapse. Generally, the world is better equipped and prepared to deal with such events than say prior to the terrorist attack on the US. However, this still remains to be a grey area in the recovery of the world economy.

It is expected that the overall economic activities will remain robust with the US leading the way, Japan recovering from its decade-long recession, and China's roaring growth. Malaysia as an export-dependent nation will benefit from the sustained performance from these three major economies. In fact, Bank Negara Malaysia has forecast a 6.0% GDP growth for the country in 2005.

The advent of the ASEAN Free Trade Area (AFTA) is expected to liberalize trade in the region, through the elimination of intra-regional tariffs and non-tariff barriers. AFTA, though the Common Effective Preferential Tariff (CEPT) scheme to bind the Member Countries to bring down intra-regional tariffs to within the 0.0%-5.0% band over a period of time.

This has narrowed the competitive gap of manufacturers of different ASEAN countries and has provided a level playing field for the stainless steel cookware makers in the region. Despite this, on the ASEAN perspective, NHR Group is the only major manufacturer in the high-end stainless steel cookware market, making its position more secure than the low-end segment, which consists of almost all major stainless steel cookware makers in countries like Thailand and Indonesia.

An added advantage would be the 40% local content rule that these manufacturers have to adhere to, in order to benefit from the tariff reduction. Since most of NHR Group's competitors are from the US and EU, the threat of these products being priced lower than they are now, is still not a significant factor. However, it must be noted that there are possibilities that these foreign manufacturers may manage set up their manufacturing operations in the ASEAN region and able to maintain the 40% local content rule.

9 PROSPECT & OUTLOOK

As the outlook for the Malaysian economy as well as the global economy looks increasingly positive, the outlook for the cookware industry looks promising too. A positive economy will lead to growth in all related economic activities such agriculture, manufacturing and services sectors. Consequently, the cookware sector will benefit from promising prospect.

The Malaysian economy is targeted to grow by 5.0% to 6.0% in 2005. The local market contributed 5% to the NHR Group's total revenue last year. Meanwhile, the export prospects of the NHR Group are bright as the pace of global economy picks up.

Its biggest export market, Japan (54% of total revenue), has awakened from its decade long slump and is estimated to achieve a GDP growth of 1.3% in 2005 after managing a 2.6% growth in 2004. The USA and Europe is projected to grow 3.9% and 2.3%, respectively in 2005. As for Hong Kong SAR and Taiwan, economic performances are estimated to grow 4.5% and 4.9%, respectively in 2005.

The pegging of the Malaysian Ringgit (RM) to the US Dollar has provided stability to trade. Recent depreciation of the greenback has pulled down the value of RM as well, thus making the import cost of Malaysian-made products cheap. This is a boon to local exporters like the NHR Group. Improving global economy will induce a rise in production, employment and wage, which in turn leads to higher disposable income, and together with a higher value of currency (which makes import cheaper), will prompt stronger demand for Malaysian products.

Similarly, the rise in economic activities and income level will also spur demand for high-end product, as standard of living improves and lifestyle changes. The NHR Group is envisaged to benefit greatly from this as it positions its products in the high-end.

Society will become more affluent and do not mind paying the high price for high-end cookware as long as it can deliver good quality cooking. The current trend into healthy cooking should augur well for the high-end stainless steel cookware industry as the high-end cookware is well known for preserving the original flavours and nutrients of the food when cooking.

The changing cooking style and needs have provided a market for NHR Group's products. The growing popularity of induction cooking is expected to be hugely beneficial to NHR Group, which provides high quality magnetic multi-ply stainless steel cookware that is suitable for this cooking method.

Furthermore, the transition to this way of cooking is growing rapidly, especially in the more developed countries like USA, Japan, Taiwan, Hong Kong SAR, South Korea, and Europe. It is before long Malaysia will follow suit.

12. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Generally, induction cooking is more advantageous than traditional methods due to its cost-efficiency, safety features and user-friendliness.

The NHR Group is also expected to gain from the increasing trend of cookware retailers outsourcing the manufacturing of their products to third parties like OEMs and ODM, especially to Asian manufacturers (lower labour costs) to reduce their costs. The NHR Group will stand to benefit from this trend.

13. DIRECTORS' REPORT

NI HSIN

Registered Office:

Level 7, Setia 1
15 Lorong Dungun
Damansara Heights
50490 Kuala Lumpur

16 June 2005

The Shareholders of Ni Hsin Resources Berhad

Dear Sir / Madam,

On behalf of the Board of Ni Hsin Resources Berhad ("the Company"), I report after due inquiry that during the period from 31 December 2004, being a date to which the last audited financial statements of the Company and its subsidiaries ("the Group") have been made up, to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus:

(a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Company or its subsidiaries;

(c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in Section 9.4(iv) of this Prospectus, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries;

(e) there have been, since the last audited financial statements of the Group, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and

(f) since the last audited financial statements of the Group, save as disclosed in the Proforma Consolidated Balance Sheets and the Accountants' Report as set out in Section 9.10 and Section 10 of this Prospectus respectively, there have been no material changes in the published reserves nor any unusual factors affecting the profits of the Group.

Yours faithfully
For and on behalf of the Board of Directors
NI HSIN RESOURCES BERHAD

HSIAO CHIH JEN
Chairman / Managing Director

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