

14. INDEPENDENT INDUSTRY ASSESSMENT REPORT

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(513578-M)

16 August 2004

The Board of Directors
Karyon Industries Berhad
Suite 13.01, 13th Floor
City Plaza, Jalan Tebrau
80300 Johor Bharu
Johor Darul Takzim

Dear Sirs,

Re: Independent Market Researcher Report on the Polymer and Surfactant Industries

This update summary is prepared for the inclusion in the prospectus of Karyon Industries Berhad to be dated 23 August 2004 in relation to its listing on the Mesdaq Market of Bursa Malaysia Securities Berhad. This report presents our findings and conclusions about the performance and prospect of the polymer and surfactant industries as well as the market position of Karyon Industries Berhad within these industries. This report also provides a special emphasis on the PVC compounding industry that Karyon Industries Berhad is operating in.

The methodology adopted in this report includes both primary and secondary market research. Interviews with the respective manufacturing associations, key players and government bodies were undertaken to provide an in-depth understanding of the current profile and future directions of these industries within the limitations of secondary statistics and information. Secondary research in the form of quantitative forecasting, market analyses and secondary statistics were obtained from various sources including the Department of Statistics, Malaysian Plastics Manufacturers Association, Ministry of Industrial Development Authority and others.

The research was conducted between April and August 2003, with updates of critical information done in April 2004. Our assessment represents the overall industry and may not necessarily reflect the individual performance of any company. We do not take responsibilities for any decision made with reference to the content of this study. This report should not be taken as a recommendation to buy or not to buy the shares of any company or companies.

Yours sincerely,
for RAM Consultancy Services Sdn Bhd



DR YEAH KIM LENG
Managing Director

Karyon Industries Berhad

An Update Summary

POLYMER AND SURFACTANT INDUSTRIES IN MALAYSIA

Prepared by

RAM Consultancy Services Sdn Bhd Co. No. 515578-M

28 May 2004

Note: The report contains dated material. Events occurring after the date of the report may alter the accuracy and opinion stated in the report.

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GLOSSARY

| Acronym | Name |
|---------|---------------------------------------|
| ABS | Acrylonitrile Butadine Styrene |
| AISB | Allbright Industries (M) Sdn Bhd |
| ASEAN | Association of South-East Asia Nation |
| CAGR | Compounded annual growth rate |
| CDE | Coconut diethanolamide |
| E&E | Electrical and electronics |
| GDP | Gross Domestic Product |
| HDPE | High density polyethylene |
| HLSB | Hsing Lung Sdn Bhd |
| LLDPE | Low linear density polyethylene |
| MBS | Methacrylate Butadiene Styrene |
| MNCs | Multinational companies |
| MT | Metric tonne |
| OEM | Original equipment manufacturers |
| PE | Polyethylene |
| PET | Polyethylene terephthalate |
| PKDE | Palm kernel diethanolamide |
| PMMA | Polymethyl metha acrylate |
| POM | Polyacetal |
| PP | Polypropylene |
| PS | Polystyrene |
| PVC | Polyvinyl chloride |
| RAMCS | RAM Consultancy Services Sdn Bhd |
| R&D | Research and development |
| SARS | Severe Acute Respiratory Syndrome |
| US | United States |

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PART I: INFORMATION ON THE COMPLEMENTARY AND SUBSTANTIALLY RELATED BUSINESS ACTIVITIES WITHIN THE KIB GROUP

All polymeric materials require the use of processing aids such as those manufactured by the KIB Group. These processing aids include the following:

1. Fatty Amide, which function as anti-blocking agent and pigment dispersing agent in the polymeric process;
2. Metal Stearate e.g. Calcium Stearate and Zinc Stearate that act as lubricant and acid scavenger in PVC and polyolefin (polyethylene/polypropylene) processing; and
3. One pack lead or lead-free system, which contains Metal Stearate as constituents and used as heat stabilisers with lubricating property in PVC compound processing

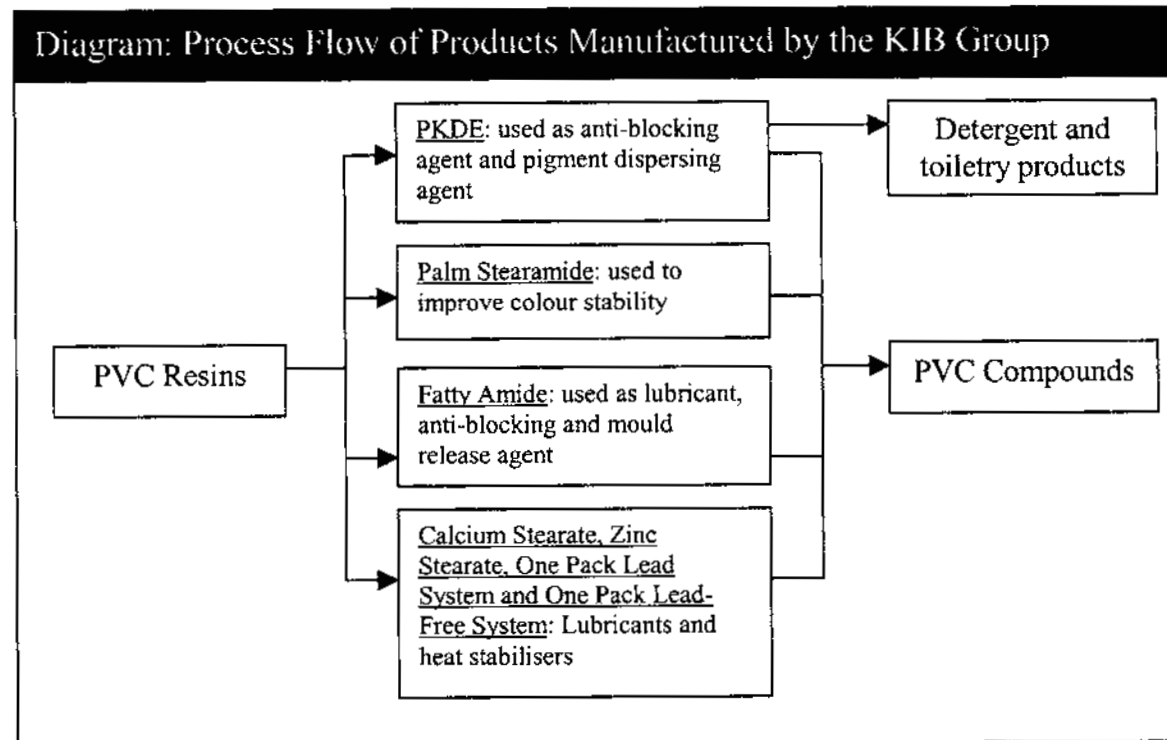
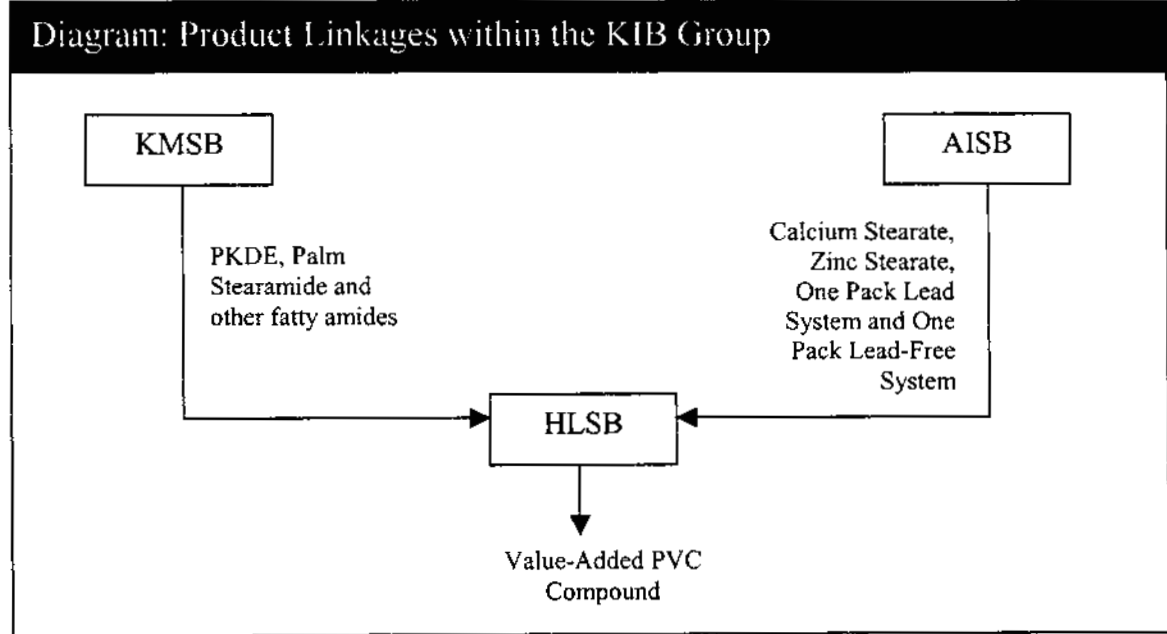
Currently, Karyon (M) Sdn Bhd ("KMSB") is producing oleochemical-based palm kernel diethanolamide ("PKDE") and supplying to Hsing Lung Sdn Bhd ("HLSB"), used as anti-blocking agent and pigment dispersing agent in PVC compound processing. KMSB is also developing palm stearamide (oleochemical based) for improved color stability in PVC compound processing using stearin as a starting material. PKDE is used in the production of black and dark color compound as PKDE tend to develop yellowish color on heating as it contains unsaturated bonding structure. Palm stearamide when developed will be used in the production of all other colors of PVC compound used in the PVC compounding industries.

In addition, KMSB intends to conduct research and development to develop oleochemical additives for polymeric production activities. These additives such as fatty amide are used as lubricant, anti-blocking and mould release agent for polymeric processing.

Allbright Industries (M) Sdn Bhd ("AISB") is currently producing calcium stearate, zinc stearate and one pack lead system and one pack lead-free system that are used as

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lubricants and heat stabilisers in PVC compound processing. HLSB is currently purchasing these materials from AISB.



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Currently, HLSB relies on AISB and KMSB for its supply of calcium stearate, zinc stearate, one pack lead system, one pack lead-free system and PKDE. As a result of the acquisition by KIB of the entire equity interests in HLSB, AISB and KMSB, KIB is in control of all the lubricants and processing aids required for the manufacturing of value-added PVC compound so as to meet the stringent quality requirements of its high-end customers. In this regard, HLSB can be assured of the quality of the PVC compound produced and be competitive in the industry.

Premised on the above, the manufacturing activities of the KIB Group i.e. manufacturing of PVC compounds, PKDE, calcium stearate, zinc stearate and one pack lead and lead-free system may be regarded as complementary business activities.

With the consolidation of ownership of HLSB, AISB and KMSB under KIB, the Group will also be able to enhance its research and development activities and derive savings in equipment, manpower and from reduction in overhead costs. This will allow the KIB Group to formulate better cross-linkages of its products mix to meet the demands of its end-clients.

PART II: AN UPDATE SUMMARY OF POLYMER INDUSTRY

II.1 BACKGROUND

This report presents the findings and conclusions of an independent assessment of the polymer and surfactant industries in Malaysia conducted by RAM Consultancy Services Sdn Bhd. It has been prepared for the submission to the Bursa Malaysia Securities Berhad (Bursa Securities) in connection with the proposed listing of Karyon Industries Berhad.

The polymer industry covers the manufacture of synthetic resins and plastic materials, which involves three major segments, namely the manufacturers of plastic resins, converters comprising injection moulders, thermo-formers and so forth and lastly the compounders. Plastic resins manufacturers entail high initial capital investment and specialized technology. They transform the monomers into polymers, which are sold in the form of pellets, powders and liquids. Meanwhile, converters transform the compounded resins into finished products through various processing techniques such as blow moulding, injection moulding, compression moulding, extrusion, and foaming. Most of these converters are engaged in OEM manufacturing and working closely with MNCs in terms of product design, product characteristics and applications.

In terms of the role of compounders, they determine the characteristics of resins and chemical properties to meet various performance requirements such as extra-strength, heat resistance and anti-corrosion to plastic materials specified by either the end users or converters. Therefore, it entails high utilization of technology and R&D in order to fulfill these stringent specifications. For example, to produce PVC compound, PVC resins need to be compounded with other additives such as plasticisers, stabilizers and if needed, processing aids to achieve various properties.

14. INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)

Total polymer production increased significantly by 10.2% annually between 1993-2003 period in tandem with the increasing importance of plastic materials as intermediate inputs for various industries. Meanwhile, PVC compound as a key-supporting segment to the polymer industry grew substantially by 15.1% in 2003. It has extensive linkages to various industries from upstream to downstream activities, including paints and coating, textiles, synthetic rubber, automotive, electrical and electronics, food manufacturing, plastics processing, toys and sports equipment, construction, building materials and agriculture industries. Key factors driving the growth of the polymer industry are the strong technical development, R&D and innovations, increasing demand for higher product quality and salient economic development.

With the rapid expansion of resin capacity and stronger demand for plastic materials, particularly stimulated by the greater synergies from the packaging, electrical and electronics devices as well as the construction industry, the contribution of polymer industry to the total sales of industrial chemicals sector rose from 19.3% in 1993 to 27.6% in 2003.

II.2. ECONOMIC REVIEW AND OUTLOOK

The global economy is estimated to have grown by 3.2% in 2003, up from 2.2% in the previous year. World trade, which grew more slowly at 2.9% than output growth in 2003, is expected to expand by 7% in 2004 and sustain a higher pace than output growth in the years ahead as trade and investment liberalization intensify under the World Trade Organization and various regional and bilateral trade agreements. Both trends augur well for the highly open and trade-dependent Malaysian economy.

With growth momentum continuing this year, the world economy is projected by the International Monetary Fund to expand by 4.1% in 2004, above its trend growth of 3.2%. Most regions are expected to contribute to the better performance of the global economy.

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Except for the year 2000, the Asean economies have been performing below their average long run growth rate of 4.8% since the 1998 Asian financial crisis. Supported by policy flexibility, improved underlying economic fundamentals, increased consumer and business confidence and higher exports arising from the strengthening of intra-regional and international trade, the Asean economies are expected to recover more strongly over the next few years. With the recovery in the global electronics industry and increasing intra-regional trade, the Asean economies are projected to grow at between 5-6% annually. China and India, which accounted for 56% and 21% share of the developing Asia's economies respectively, are expected to maintain robust growth of around 6-7%.

Malaysia recorded one of the region's highest growth rates, averaging 9.2% per annum during 1990-1997 period. However, when the currency crisis struck Asia in mid-1997, the economy contracted sharply by 7.4% in 1998 due to the collapse in both domestic and external demand. Following a series of economic restructuring and fiscal stimulus programme, and supported by accommodative monetary policy, the economy grew by 4.7% annually between 1999 and 2003 despite the generally adverse external environment during this period.

Supported by resilient private consumption and stronger exports of manufacturing products and primary commodities, the economy grew more strongly by 5.2% in 2003. The higher-than-expected growth performance marked the continuing recovery of the economy since the slowdown to 0.4% in 2001 and affirmed its resilience against shocks caused by the Iraq War and SARs outbreak.

The current growth momentum is supported by an increasing level of private investment, higher inflow of foreign direct investment, an export-led recovery in the manufacturing sector, and growing demand for higher value-added business, financial, education, health and tourism services. Given the improving fundamentals of the economy, the Malaysian economy is expected to grow by 6.3% in 2004 and 6.5% in 2005.

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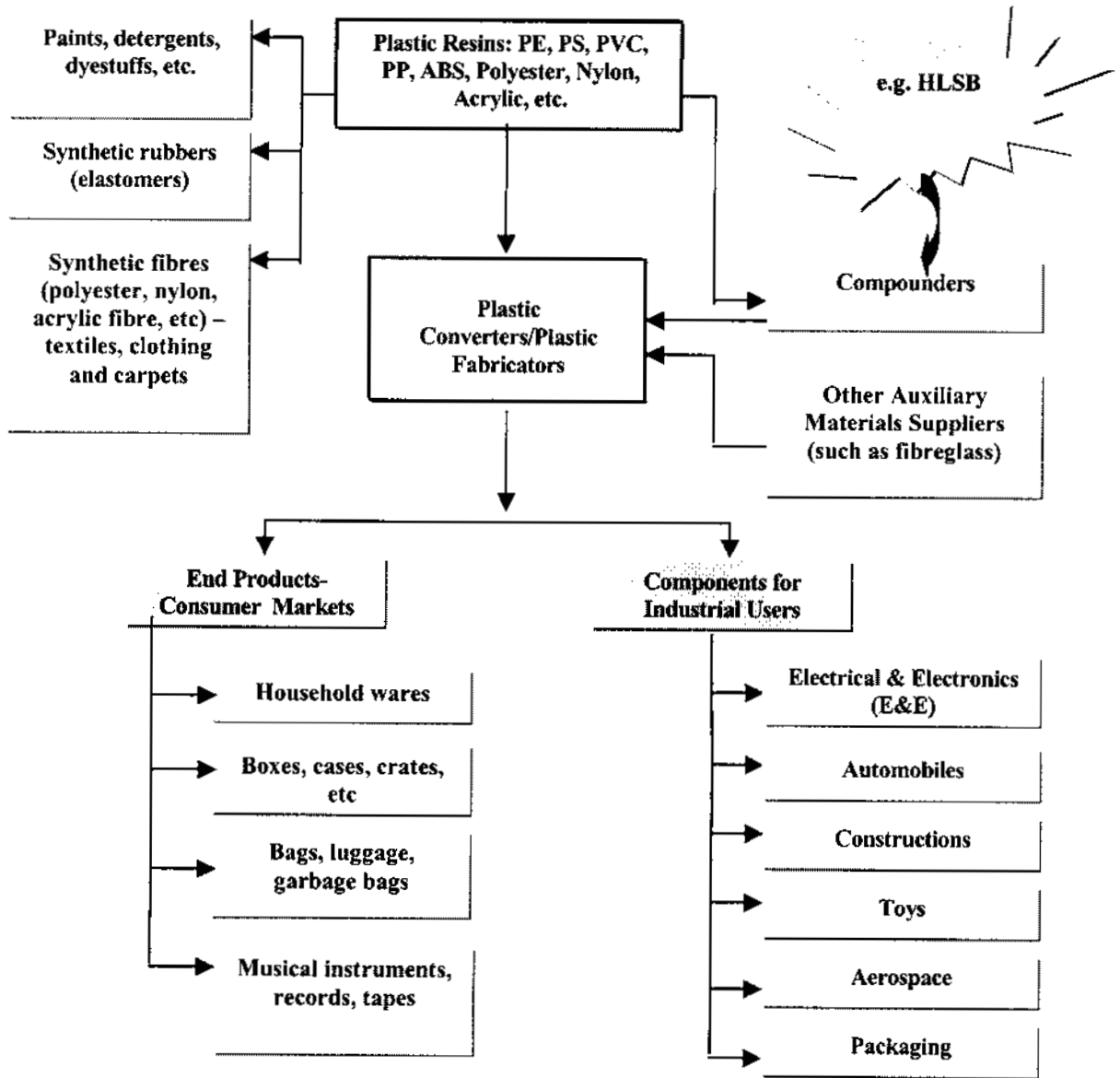
Key external risks that may dampen the economy include the escalation of conflicts in the Middle East region that increases geo-political uncertainties, disruptions to global trade and financial markets caused by further slide in the US dollar or eruption of trade wars and lastly the possible outbreak of pandemic diseases such as SARS, nipah virus and Avian flu.

II.3. INDUSTRY STRUCTURE

The polymer industry is classified under the manufacture of synthetic resins and plastic materials. This industry involves three major segments, namely the manufacturers of plastic resins, converters comprising injection molders, thermoformers and so forth and lastly the compounders. There are more than 10 synthetic resins manufacturers in operation in Malaysia. Meanwhile, the comparatively high fragmentation of plastic fabrications and processing industry comprise more than 1200 establishments. Compounders, the key supporting industries, which are highly concentrated consist of more than 30 companies in Malaysia.

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Exhibit 1: Flow Chart for Plastic Industry



II.4. INDUSTRY LIFE CYCLE

Despite high entry barriers in terms of capital investments and technical know-how, the industry experienced a period of high growth underpinned by burgeoning growth of the

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end-user industries such as automobile, electrical and electronics, construction, building materials and packaging industries.

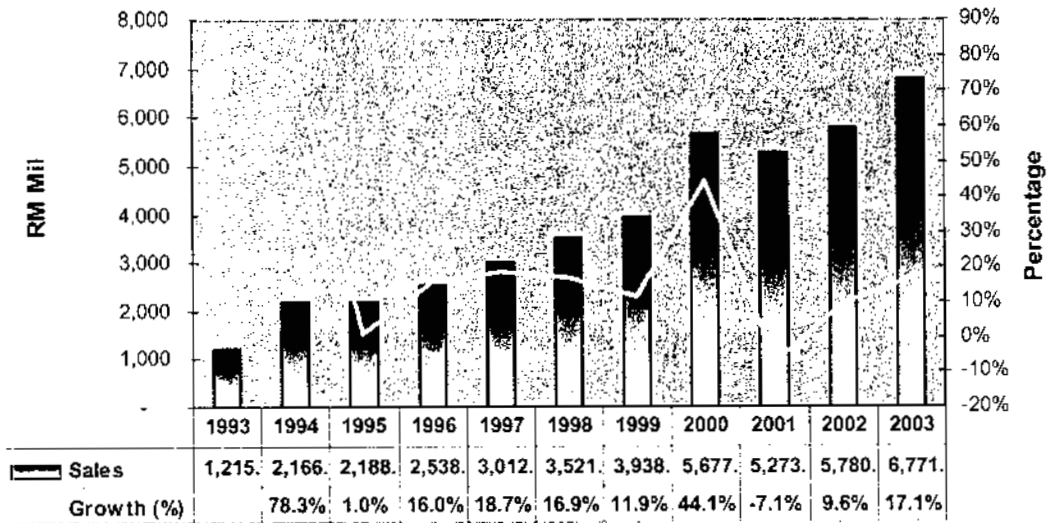
Between 1993 and 2003 period, total production of polymer in Malaysia increased significantly by 10.2% annually. This growth period is also supported by a substantial rise in total resin exports of 26.0% in 2003, amounting to RM4.8 billion as opposed to RM3.8 billion in 2002. Total resin exports grew at an annual compounded growth rate of 35.1% between 1991-2003 period. In terms of total sales, it expanded substantially by 17.1% in 2003 compared with 9.6% in 2002. Over the period between 1993 and 2003, total sales value of resins grew at an annual compounded growth rate of 18.7%. The production cycle in the polymer industry is comparatively more volatile compared with other sub-sectors in the industrial chemical industry. This was indicated by the coefficient of variation at 24.7% in the polymer industry, which is higher than 23.5% registered in the industrial chemicals industry.

The growth phase of the polymer industry life cycle has been sustained by product innovation, technology advancement and performance requirements from various new and existing end use industries. Product innovation will also be driven by the increasing demand for engineering plastics coupled with continuous advancement in thermoplastics. In addition, biodegradable and recyclable plastics that reduce the use of potential hazardous chemicals such as lead, cadmium and other heavy stabilizers are being developed to minimize the negative impact on the environment. These developments will likely spur the growth within the polymer industry.

II.5. INDUSTRY OVERVIEW

Sales of polymer products increased substantially at a compounded annual average growth rate of 18.7% between 1993 and 2003. The upstream petrochemical projects undertaken during the early and mid 1990s have benefited local manufacturers in terms of consistent supply of raw materials at a cheaper price.

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Exhibit 2: Sales Ex-factory of Synthetic Resins, Plastic Materials & man-made Fibres except Glass

Source: Department of Statistics, RAMCS database

The rising demand for plastics from major segments such as packaging, E&E, motor vehicle and construction industries have spurred demand for local synthetic resins.

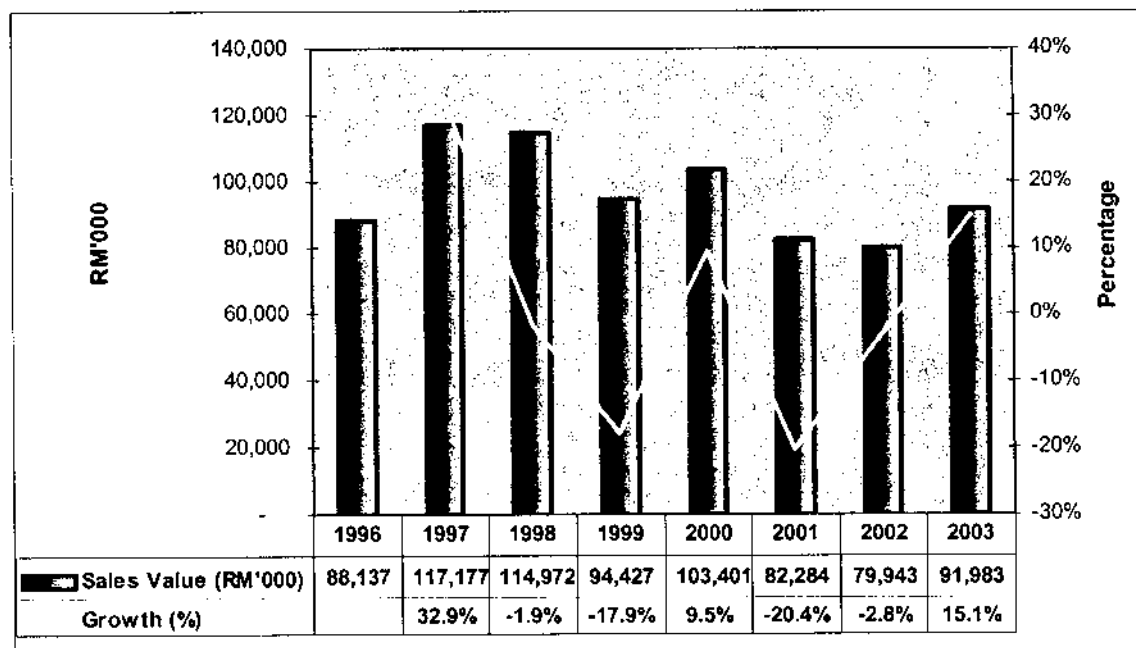
In addition, the tariff and non-tariff protections by the Government have provided great support to the local resins industry from external competition. The import tariff on PE and PP stood at 15.0% for imports from ASEAN countries before 2003. The rate has however been reduced to 5.0% effective 1st January 2003. Imports of polymers from non-ASEAN countries are still subject to 20%-30% tariff rate.

By contrast, total sales of PVC compound increased marginally by 0.6% between 1996 and 2003 period despite a stronger annual growth of PVC resins at 12.6%. The performance of PVC compound rebounded strongly in 2003 after 4 years of contraction between 1998 and 2002 except for 2000. The positive development is attributable to the improvement in PVC formulations coupled with lower cost and processing ease.

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“Green PVC” products containing lead and cadmium *free* stabilizers as well as more environmentally friendly flame retardants and plasticisers are now gaining acceptance and have become safer for industrial applications.

Exhibit 3: Sales Value and Growth of PVC Compound, 1996-2003

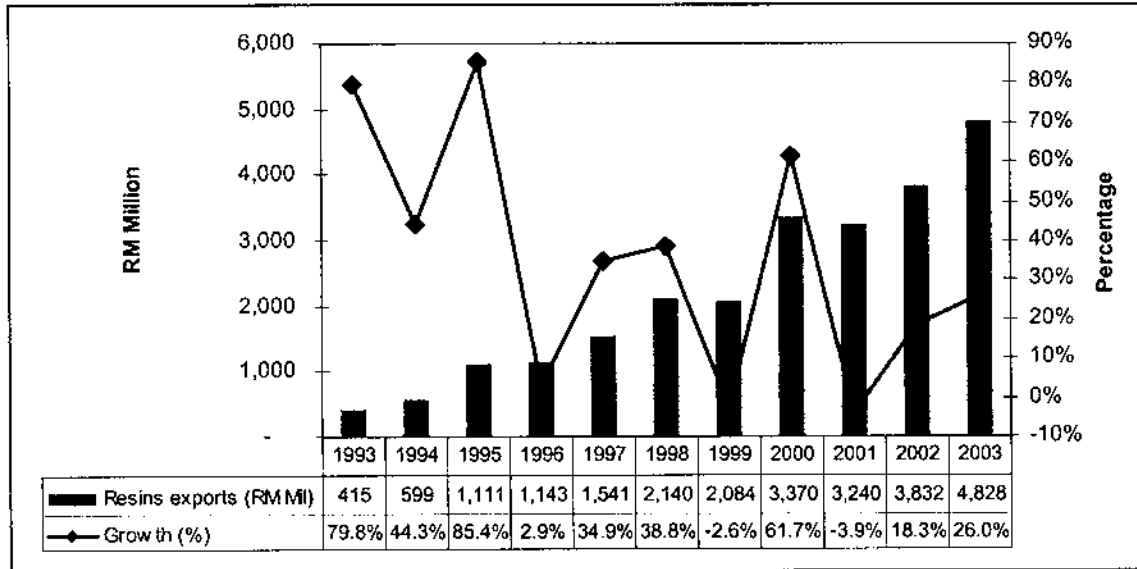


Source: Unpublished data from Department of Statistics

The bulk of the Malaysian plastic resins exports are in the primary forms such as PE, PP, ABS, PS, PVC and PET. Between 1993 and 2003, total resins exports increased strongly by 27.8% per annum with China as the largest importer. Despite higher export growth, total trade of plastic resins remained in deficits for years. Nevertheless, the expansion of production capacity and introduction of new polymer products in the local markets have helped to reduce trade deficits of plastic resins from RM2.0 billion in 1993 to RM0.5 billion in 2003.

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Exhibit 4: Plastic Resins Exports and Growth, 1993-2003



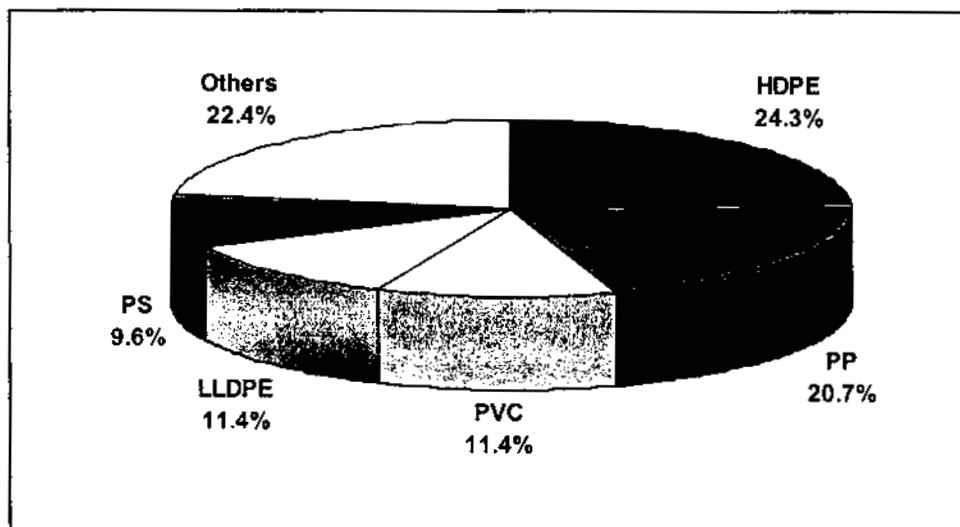
Source: Department of Statistics, RAMCS database

Large imports of plastic resins amounted RM5.3 billion in 2003 (1993: RM2.4 billion) were supported by stronger economic activities in the country in addition to the non-availability of the certain grades of resins in the local market. There are also many resins, notably engineering resins that are not manufactured in Malaysia compared with our neighbouring countries, for example Singapore namely POM, PMMA and MBS.

Resin consumption in Malaysia had increased at an annual compounded growth rate of 7.6% between 1993-2003 period. The strong growth was attributable to favourable demand from the plastics processing industry that grew 17.2% annually in its total production during the same period. Of a total resin consumption of 1.4 million MT in 2003, HDPE accounted for 24.3%, followed by PP at 20.7%, PVC at 11.4%, LLDPE at 11.4%, PS at 9.6% and others at 22.4%.

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Exhibit 5: Plastic Resins Consumption by Type, 2003



Source: Malaysia Plastics Manufacturers Association

II.6. COMPETITION INTENSITY AND MARKET SHARE

The competitive intensity has been increasingly high in the polymer industry in consonance with the advent of trade liberalization within the ASEAN region in addition to the aggressive expansion of China's plastic resins plants that may possibly trim down their demand on the Malaysian plastic resins and products. In general, competition in both the local and overseas market is highly dependent on firm-specific and product factors such as price, technical assistance, cost, quality, customer service, compliance to technical and properties specification, and delivery and supply adequacy.

Competition among local compounders hinges on the degree of integration, vertically or horizontally. Integrated compounders such as Malayan Electro Chemical and Industrial Resins Berhad have full integration of operations from supply of PVC to compounding business. Therefore they tend to procure higher market share than the independent compounders.

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Independent compounders focus primarily in compounding operations, although there are some firms, which produce final products as well as actively involved in resin trade and distribution. Generally, these independent compounders focus on their own niche competitive area. These group of independent compounders such as HLSB have to leverage on several attributes to remain competitive than resin producers compounders such as personalized customer services, wider range of formulation capabilities, willingness to supply small volume orders, wider options for base materials and rapid turnaround time.

The market share analysis indicated that HLSB garnered 19.8% of the PVC compound industry in 2003 as opposed to 17.9% in 2002. The gain of 1.9% points in 2003 reflects the increasing penetration of new markets by HLSB.

II.7. INDUSTRY OUTLOOK AND FORECAST

The polymer industry is projected to increase in sales by a CAGR of 16.7% between 2004-2010 under the assumption that the Malaysian real GDP will grow by a CAGR of 7.2%. The robust growth in the polymer industry will be also supported by salient demand from the key end-user industries such as E&E, transport equipment, plastic products, construction, paints and coatings industries. Similarly, the favourable prospects of the end-user industries will likely to spur the compounding business to grow by 5.9% annually between 2004-2010 since resin compounding is an essential prerequisite for the end-users to enhance its final product performance and quality. Therefore, there will be a continuous demand for compounding services with increasing stringent properties requirements for high-technology applications.

Demand for PVC, in particular will exhibit best growth opportunities due to its relatively lower cost, better performance, design and processing ease than other plastic materials.

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“Green PVC” products and more environmentally friendly flame-retardants and plasticisers are gaining acceptance and have become safer for industrial applications.

II.8. THREATS AND RISK ANALYSIS

The polymer industry is exposed to various threats and uncertainties including raw material supply, environmental issues, cyclical economic forces, market risks, uncertainty of feedstock costs, over capacity risk and global mergers and consolidations.

Given that most of the resins are imported due to factors such as non-availability of certain grades of resins, cheaper prices and better quality, the polymer industry is highly vulnerable to exchange rate risks that cause revenue volatility.

Some of the plastic materials such as PVC continue to bear the brunt of environmental pressures resulting to higher import tax imposed on the plastic exporting countries. Besides environmental pressures, the polymer industry in Malaysia is also vastly exposed to the external competition for businesses and funds. Relocations of certain industries, particularly electrical and electronics and textiles and wearing apparel to other low-cost producing countries may have significant impacts on the local compounding industry.

Due to the mismatch of the timing between capacity expansion and the rising demand, the polymer industry is prone to excessive supply.

Merger and acquisition is common in this industry and it is based on needs for product line expansion as well as high costs needed to fund research and development efforts and deliver prompt service and technical support. Inefficient of local players may lose out or being absorbed by MNCs.

PART III: AN UPDATE SUMMARY OF SURFACTANT INDUSTRY

III.1. LINKAGES BETWEEN OLEOCHEMICAL AND SURFACTANT INDUSTRY

Oleochemicals refer to chemicals originated from vegetable or animal oils. Basically, it refers to the fatty acids and glycerol derived from the splitting of the triglyceride structures of oils and fats. Oleochemical derivatives such as long chain fatty acid, fatty alcohol, fatty ester, fatty amine, fatty amide and other chemicals are used as inputs for the production of surfactants and emulsifiers. The Malaysian oleochemicals industry expanded its production from 1.5 million MT in 2002 to 1.7 million MT in 2003. At present, about 60% of the total production of crude palm kernel oil and 5% of crude palm oil are consumed in the production of oleochemicals.

Before 1985, tallow was an important raw material for the oleochemical industry. From 1985 to 1995, however, its role had become less important due to a fundamental shift towards the use of vegetable oils. The percentage share of coconut oil declined due to the increasing popularity of palm and palm kernel oils consumption during 1990s. The market share of coconut oil has declined from 3.4% in 1994 to 2.7% in 2003, reflecting that the production of coconut oil is unlikely to increase significantly in the future and its role in the oleochemical industry is also become less significant.

III.2. INDUSTRY PERFORMANCE

Surfactant or "surface active ingredient" is the wetting and foaming agents, which form the basis for most aqueous cleaners. Surfactants are mostly consumed for the production of heavy-duty powders, shampoo, bath gel, dish washing liquid, personal care products, cosmetics, lubricants additive and other cleaning agents. It is estimated that

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approximately 9%-15% of the total raw materials for the production of soap and shampoo is surfactant. Other raw materials comprise emulsifier, solvents, softeners or builders, preservative, thickeners, perfume, colouring agents and other components.

In terms of type of surfactant, there are four major types comprising nonionic, anionic, amphoteric and cationic. Examples of these types of surfactants are denoted in the table below:

| Type of surfactant | Examples |
|--------------------|---|
| Nonionic | Nonylphenol ethoxylate, alcohol ethoxylate, octylphenol ethoxylate, coconut diethanolamide (CDE), palm kernel diethanolamide (PKDE) |
| Anionic | Linear alkylbenzene sulfonate, alcohol sulfates, alcohol ether sulfates, sodium alkyl polyether, sulfonate alkyl polyglycosides, unspecified anionic surfactant |
| Amphoteric | Soap alkylbetaine, unspecified amphoteric surfactant |
| Cationic | Alkyldimethyl benzl ammonium chlorides, ammonium chlorides or compounds. |

Total global demand of surfactants amounted to 9 million MT in 2001. Of this, nonionic surfactant comprised 36.0% of the total demand or 3.2 million MT in 2001. Meanwhile, the annual sales of the surfactant industry in Malaysia increased at an annual compounded growth rate of 6.8% between 1991 and 2003 underpinned by the strong demand for soap and cleaning preparations. In 2003, the market size is estimated at RM95 million sales per annum.

The main players in the surfactant industry include Cognis Oleochemicals (M) Sdn Bhd, Matrix Corporation Sdn Bhd, Palamide Sdn Bhd and Southern Edible Oil Industries (M) Sdn Bhd.

III.3. COMPETITION INTENSITY AND MARKET SHARE

The low technological content in the manufacture of soap has attracted many players in this industry. According to the Manufacturing Census 2001 published by Department of Statistics, the total number of establishments in the manufacture of soap and cleaning

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preparations as well as perfumes and toiletries stood at 87 as at end 2000. Until today, there are still a number of firms producing soaps from the saponification of oils and fats using caustic soda. Saponification is the chemical process of neutralization of fatty acid.

Competition remains intense within the natural oils and fats, especially between coconut oil and palm kernel oil. This situation can be aggravated with the entry of genetically modified oilseeds in the international markets. Price competitiveness and consumer appeals are the key factors determining the subsistence of business for PKDE.

Due to the lack of specific industry data on surfactant products and the need to estimate the industry size, several assumptions are made critical for this purpose. The assumptions are as follows:-

- a. Surfactants comprised 9%-12% of the total cost of goods sold in the manufacture of soaps and cleaning preparations between 1990-2003 period;
- b. The cost of goods sold accounted for 80% of the total sales of soaps and cleaning preparations.

Supported by these assumptions, it is estimated that KMSB has a market share of 4.6% in the surfactant industry based on KMSB's sales of RM4.3 million in 2003.

III.4. INDUSTRY OUTLOOK AND FORECAST

The prospect of the surfactant industry especially with respect to PKDE is relatively promising based on the following factors :-

- The diversification and expansion of surfactant markets provide an incentive and opportunity for the broad range of research and development activities, especially aimed at developing economically profitable processing techniques and new products.

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- The migration towards more environmental friendly and biodegradable products will ensure the demand for natural oils and fats derived surfactants can be sustained;
- Inadequate and unstable global supply of coconut oil due to smallholder owned plantations, weak distribution channel, lack of choice in planting material and inappropriate planting strategies have caused a shift to the perfect substitute, namely palm kernel oil;
- The markets for natural oils and fats derived surfactant industry, particularly palm kernel oil, is expected to increase given the large scale oil palm plantation estate that allows for better technological improvement and assurance for higher yields. Palm kernel oil is a mere by-product of palm oil production, equivalent to 0.1 to 0.13 MT of palm kernel oil for every one MT of crude palm oil produced.
- The increasing demand for surfactant from end-user industries such as personal care, soap and cleaning preparations fuelled by rising population will continue to boost the surfactant industry. Moreover, demand forces from the world populated countries such as China and India will continue to lead the world surfactant industry.

15. DIRECTORS' REPORT

KARYON INDUSTRIES BERHAD

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Registered Office

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80300 Johor Bahru
Johor Darul Takzim

16 August 2004

To : **The Shareholders of Karyon Industries Berhad**

On behalf of the Board of Directors of KIB, I report after due enquiry, that during the period from 31 March 2004 (being the date to which the last audited accounts of KIB have been made up) to 16 August 04 (being the date not earlier than fourteen days before the issue of this Prospectus): -

- (a) the business of the KIB Group, in the opinion of the Directors, have been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the KIB Group which have been materially and adversely affected the business and operations or the value of the assets of the KIB Group;
- (c) the current assets of the KIB Group appear in the books at values, which are believed to be realisable in the ordinary course of business;
- (d) there are no other contingent liabilities that has arisen by reason of any guarantees or indemnities given by the KIB Group; and
- (e) Since the last audited accounts of KIB Group there has been no default on any known even that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowing in which the Directors are aware of
- (f) since the last audited accounts of the KIB Group, save as disclosed in the Accountants' Report and Proforma Balance Sheet as set out in Sections 13 and 12.7 respectively, of this Prospectus, there has been no changes in published reserves nor any unusual factors affecting the profits of the KIB Group.

Yours faithfully
for and on behalf of the Board of Directors of
KARYON INDUSTRIES BERHAD


Chua Kee Lam
Director