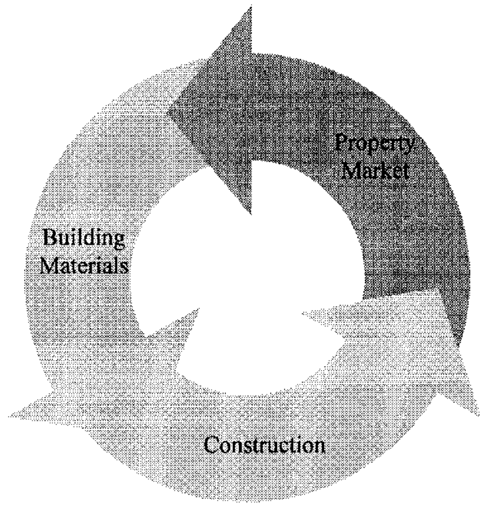
4 Industry Overview

The building materials industry is highly dependent on the infrastructure, construction and property development sectors. These industries are invariably linked and inter-related, each one playing a vital role in supporting the other. In layman terms, the building materials industry is the raw materials used in the production of real estate, while the construction industry is the "work-in-progress". The supply and demand of each industry is linked, for instance, without construction or infrastructure projects, there would be little demand for building materials, and there would be no supply of real estate for the property market and vice versa. In fact, so inter-twined that the major trends and indicators in one industry can be used to estimate and project the trends for the other 2 sectors. For example, the 1998 recession that badly affected the construction and property sectors also saw sales of building materials plunge by a –28%[17]. Competition and price undercutting was the other main reason for the decrease in sales value. In contrast to the industry, **The Group** was able to sustain profitability during the economic downturn in, recording year-on-year growth in profit after taxation between the years of 1996 to 2000.

In view of the bulky nature of the industry output and the vast market within Malaysia, the building materials industry remains a locally focused industry. The levels of external trade have always been low and comprise a small portion of total output. Due to the close proximity to Peninsular Malaysia, the most important trading partner is Singapore. Coincidentally, **OKAG's** expansion plans include the set up of a manufacturing plant in Johor, which would enable it to venture into the Singapore market capitalising on the strategic location of the plant and minimal transportation costs.

[17] Average sales of 5 major listed companies (ACPI, CI Holdings, Suntech, UAC – Co. and YTL Cement) in 1998.

Chart 1 Inter-related Industries



Source: ACNielsen

The building materials industry centers on two core interdependent sub-sectors, namely the Stone Quarrying ("SQ") and Cement & Concrete Products ("C&CP") sectors. However, the close link between the 2 sub-sectors is reflected by the fact that 70% of the quarrying output in the country is used as raw material for the production of ready-mixed concrete, which in turn is the most important cement and concrete product, as surveyed by the Statistic Department[18]. Other sub-sectors include Timber and timber products, Iron and steel materials, Cement and concrete materials, Clay materials and other building materials. Some descriptions of products under these categories include - Concrete/Cement Roofing Tiles, (Asbestos) Cement Flat Sheet, (Asbestos) Cement Corrugated Roofing Sheets, Ready-Mixed Concrete and Other Cement & Concrete Products. **OKAG's** business focus is specifically on C&CP with its main range of concrete products manufactured listed in Section 4.1.1. **The following sections consider the building materials industry in its entirety.**

4.1 Building Materials Industry Growth[19]

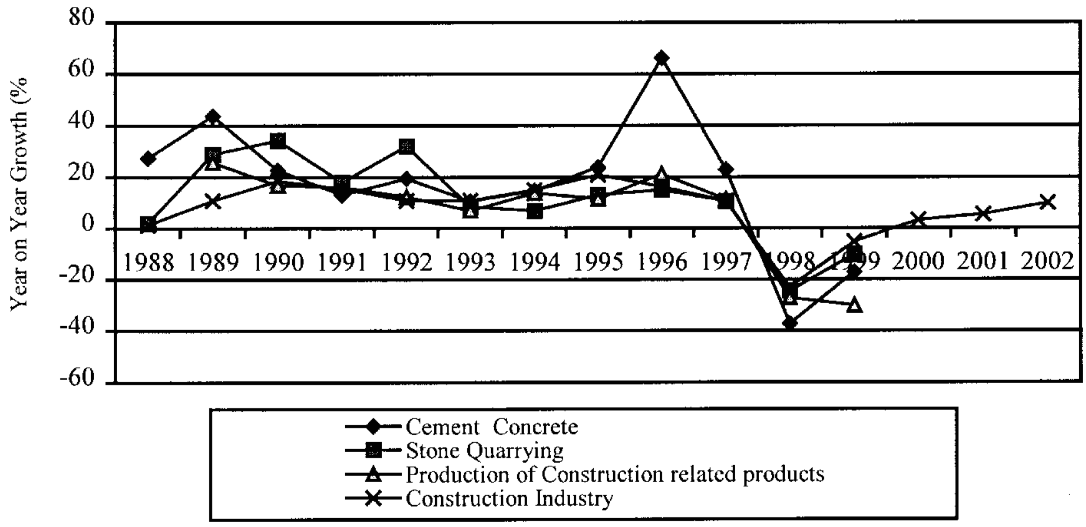
The total value of output from the local building materials industry was estimated at RM3.0 billion, just 1% above the country's nominal GDP. While it is small in size, it plays a very

[18] Dynaquest Sdn Bhd
[19] Dynaquest Sdn Bhd

important supporting role in the local construction industry. Due to this dependence, the industry has been as volatile/ cyclical as the construction industry.

While the boom and bust cycle seems to sway in tandem with that of the construction industry cycle, different growth rates were recorded for the various sub-sectors within this industry. At the time of our research, the growth figures obtained were until 1999, we have however, included projected construction industry growth rates into the chart for comparison purposes.

Chart 2 Building Materials Trend vs. Construction



Source: Dynaquest Sdn Bhd, Bank Negara Malaysia.

The sales value of C&CP was down by 37% in the year 1998, the first contraction after ten years of uninterrupted growth. Correspondingly, the quarrying sector also showed a decline by 24.5% in the same year. This was unsurprising following the Asian financial crisis.

Based on Chart 3 above, the year-on-year growth trend from for the sub-sectors in building materials industry from 1988 to 1999, has closely tracked the local construction sector with an exception for the C&CP sub-sector in 1996. Past history reveals this correlation to be consistent since 1981 with the shrinking of growth in three straight years from 1985 to 1987 for the building materials industry, coinciding well with the downswing in the construction sector during the mid-Eighties recession.

In the C&CP sub-sector, the value of C&CP increased by almost tenfold in the boom time after 1987. From peak-to-peak (1997/1984), C&CP industry has outperformed the construction sector by a fairly big margin, growing at an average annual compounded growth rate of 10.2% compared to the construction sector's 6.5%.

In 2001, the growth rate for the C&CP sector is at 6%, which has outperformed the construction industry growth at 2.3%[20]. This augurs well for the prospects of **OKAG**, as its operations are within the C&CP sub-sector.

The future outlook for the building materials industry remains positive due to the pump-priming measures by the Malaysian government to stimulate the economy. The 2001 Budget allocates RM26.8 billion to infrastructure public spending which will in turn benefit the industry. Subsequently, the government announced an additional RM3 billion supplementary budget on 27 March 2001 and the more recent RM4.3 billion package in September 2001 to counter the effects of the slowdown in the US economy. This would eventually have a filter down effect to the C&CP sub-sector and consequently, to **OKAG** as many of its products are used for infrastructure projects. In addition, allocations under the 8MP for housing and renovation amount to RM4.4 billion whilst allocation for improvement and upgrading of existing roads is RM9 billion. Moreover, the Infrastructure Development Bank of Malaysia, formerly known as the Development Bank of Malaysia has indicated that it would lend up to RM30 billion for infrastructure projects in the next 5 years over the 8MP[21]. Loans are expected to finance multimedia and technology projects, ports in Klang and Johor and some privatised power generation plants. It is important to re-emphasise at this point that **OKAG**'s business strategies for expansion are in line with the growth policies set forth by the government.

4.1.1 Industry Fragmentation and Key Players

It is very difficult to single out the market leader in the building materials industry, given the sub-sectors of the industry and the large number of companies manufacturing various diversified products. In most major infrastructure, property development and construction

[20] Bank Negara Malaysia – Monthly Statistical Bulletin January 2002; Economic & Financial Developments in the Malaysian Economy in the Fourth Quarter of 2001
[21] Austrade Online – Malaysian Construction Industry Overview, January 2001

projects, developers and contractors are most likely to purchase building materials from various suppliers to capitalise on competitive prices and services in the market.

The C&CP sub-sector has a large number of players and produces roofing tiles and sheets, flat sheets, ready-mixed concrete and other cement and concrete products. Among the other cement and concrete products, sales of precast concrete piles are expected to be the most substantial, estimated to exceed RM1 billion, with the more popularly used structures being reinforced concrete piles and pretension spun concrete piles ("PSC"). The leader of the PSC piles market, Industrial Concrete Products of the Hong Leong group captures half of the local market share[22]. The remaining market share being an encouraging signal for **The Group**, poised to capitalise on the vast opportunities in the local market.

The Group operates within the Other Cement and Concrete Products category of the C&CP sub-sector of the building materials industry. The key players within the C&CP sub-sector are YTL Cement Berhad, Suntech and UAC Berhad. These companies are listed on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE") and are more diverse compared to **OKAG** in terms of business focus. The players not only manufacture and supply ready-mixed concrete to the construction industry but, are involved in the provision of concrete products to major infrastructure projects as well as investments other businesses in the country. As such, these key players are not considered to be in direct competition with **OKAG**.

The perceived competitors of **The Group** include Associated Concrete Products (Malaysia) Sdn Bhd, E-Rete (Malaysia) Sdn Bhd, Hume Concrete Marketing Sdn Bhd and Jasa Timor Sdn Bhd. These players are used as a comparison against **OKAG** because of a similar product range, principle activities and issued share capital, within the range of RM1 million to RM5.4 million.

As one of the established manufacturers of precast concrete, **OKAG** has managed to achieve economies of scale and efficiency in its operations and believes that it presently commands approximately 12% of the total concrete products market in Malaysia. The key competitive advantages of **The Group** are product quality, a strong marketing team, and low production costs due to economies of scale.

[22] Dynaquest Sdn Bhd

Market share of **The Group** based on turnover is reasonable when compared to the share capital of each of the perceived competitors. It shows great potential for **OKAG** to capture a larger market share. This is deemed possible because of the following positive factors and strategies:-

- **OKAG** has a management track record of having more than or approximately 10 years of relationship with the key players in the construction industry, such as IJM Construction Sdn Bhd and Gamuda Construction Sdn Bhd (please refer Table 6).
- **OKAG**'s ability in handling the volume of sales and requirements of high profile projects.
- On a macro level, the government's pump primping measure of budgeted development expenditure of RM26.8 billion augurs well for **OKAG**'s expansion of market share. In addition, the RM3 billion supplementary budget announced on 27 March 2001 and the more recent RM4.3 billion package to counter the effects of the US economic slowdown also signals vast opportunities for **The Group**.

Hence, **OKAG** envisages that they would be able to capture a larger market share from its perceived competitors.

5 Industry Linkages

5.1 Construction Industry Overview

The construction industry has always been regarded to be one of the barometers of the economic health of any nation. In Malaysia, it was one of the hardest hit sectors during the economic downturn in 1986 and 1998. This was expected as the construction industry depends to a large extent on derived demand and is dependent upon the economic criteria created by the other downstream sectors such as banking and manufacturing. The industry in turn, supports the resource-based industries upstream such as the building materials and property sectors. Underpinned by increased government spending and revival of several infrastructure projects as well as the revival of the Bakun project, recent statistics show that the performance of the sector is encouraging. Positive construction GDP, higher manufacturing output of construction related materials, rising loan approvals for the industry and slow down in reported deferred projects, all point towards an industry that is slowly but surely, recovering. The sector has experienced a growth of 2.3% in 2001 and is expected to grow at 4.3% in 2002[23]. (2000:1.0%; 1999: -5.6%). The demand for housing, in particular low and medium-cost units as well as infrastructure projects in the health and education sub-sectors and rural development from the RM3 billion pre-emptive measures in March 2001 and the more recent RM4.3 billion package in September 2001 will also contribute towards further growth in the construction sector.

Table 7 Construction Industry Activity Indicators (1998-2001)

(%)	1998	1999	2000	2001
Cement and concrete production	-40.8	8.3	36.7	6.0
Iron and basic steel production	-35.6	37.0	20.2	4.7
Construction related products	-27.6	14.2	18.6	5.0

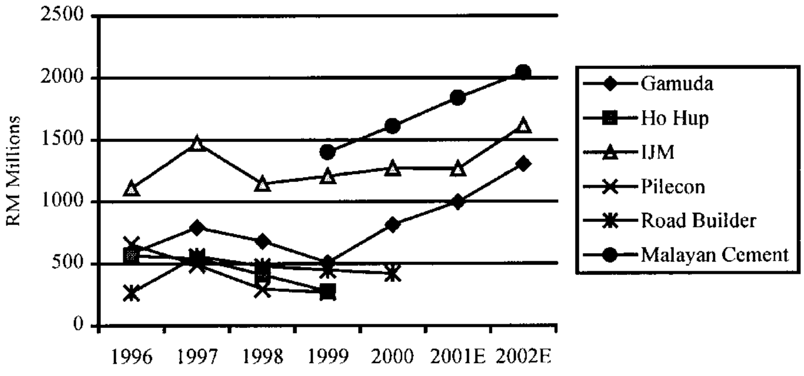
Source: Bank Negara Malaysia, January 2002

[23] Bank Negara Malaysia – Economic & Financial Developments in the Malaysian Economy in the Fourth Quarter of 2001; Economic Report 2001/2002

As indicated in Table 19, the Construction Sector Indicators had shown a downward adjustment from year 2000, where the production of two major construction related materials, cement/ concrete and iron/ steel have shrink to a single digit growth in 2001. There is also a substantial decrease in the growth of construction related products from 18.6% in 2000 to 5% in 2001. The decreases in growth rates are due to the immense turnaround from the crisis-stricken 1998, and the subsequent sharp recovery in 1999 and 2000, where they stabilise to the normal level in 2001. The overall construction sector is benefiting from the accelerated disbursement for project under the fiscal stimulus programme. For the nine (9) months period to 30 September 2001, the value added from the sector was sustained at 2.6%, reflecting increased spending by the sector on infrastructure projects including roads and schools as well as continuing growth in construction activity in the residential sub-sector[24].

The sales and profit performance of at least six of the major listed construction companies in the country also indicated improved numbers from the third quarter of 1999 onwards. Note that this serves only as an indicator of the general well being of the construction industry, indicating the huge potential for growth.

Chart 3 Annual Turnover Trends of Major Construction Companies.



Source: KLSE, Company Annual Reports, Merrill Lynch and Dynaquest Sdn Bhd.

The construction sector will act as a stimulus to the economy in its role as an employment provider and a business catalyst by virtue if its strong linkages to the building materials,

[24] Bank Negara Malaysia Press Release dated 23 November 2001

property and small/medium industries ("SMI") manufacturing sectors. In addition, a more aggressive stance by the government on public sector spending will be successful at prolonging Malaysia's economic expansion. The growth is due mainly to the implementation of several large public and privatised infrastructure projects and new investments in the residential sector, in particular low and medium-cost houses to meet the underlying demand.

Projects undertaken in 1999 include projects like the New Pantai Highway, Simpang Pulai-Lojing-Gua Musang-Kuala Berang Road, KL Monorail, Section 2 of the LRT system from Pasar Seni to Gombak, Express Rail Link to KLIA from Kuala Lumpur and the Kuala Lumpur Western Traffic Dispersal Scheme[25]. Year 2000 saw the commencement of deferred privatised infrastructure projects like Cyberjaya, IPP Plant in Yan (Kedah), expansion of the Tanjung Pelepas Port, West Port of Port Klang and Bintulu Port[26].

In the 2001 Budget, the government allocated RM26.8 billion to infrastructure public sector spending. The projects are broad-based and not concentrated in the Klang Valley as previous years, many related to provision of infrastructure for social development of the country. The government announced that there will be 167 new primary schools, 120 new secondary schools and 42 hospitals built resulting from the RM26.8 billion, amongst other large-scale infrastructure projects.

Civil engineering activities are expected to continue to recover and strengthen given the fiscal stimulus and resumption of projects that were deferred. Consequently, the share of the construction sector to overall GDP is estimated at 3.4% (1999: 3.6%)[27]. Moving forward, with higher budget allocations for education, health and social amenities, the construction sector is projected to grow more strongly at 5.5%. This is further strengthened by the increase in large private / public infrastructure projects. This, coupled with increased disposable incomes, the share of real GDP for the construction sector in 2001 is expected to maintain at 3.4%.

[25] Economic Report 1999 – 2000.
[26] Economic Report 2000 – 2001.
[27] Economic Report 2000-2001, Ministry of Finance

Activities related to the construction of low and medium-cost residential properties are, however, expected to remain strong. A total of RM271.3 million is allocated from the Budget Fund towards the construction of low cost houses beginning 2000. In fact, the bulk of the growth will come from the residential construction sub-sector, in tandem with major developers' strategy to move from high-end to low and medium cost property construction. This is further strengthened by lower interest rates and attractive home loan packages available to consumers. Other efforts to encourage demand include the Home Ownership Campaign, relaxation of lending guidelines by Bank Negara Malaysia in September 1998 for the purchase of houses costing RM250,000 and below, and the government has also increased housing loan limits for civil servants from between RM35,000 – RM200,000 to RM40,000 – RM300,000[28].

Excess supply however, still exists and in the non-residential sector, the oversupply situation and low occupancy rates for office and retail space continue to dampen building activity. The proposed bank mergers, various industry consolidations and the movement of government offices to Putrajaya will further compound the oversupply, especially in high rise offices, shop houses and industrial factories. In addition there was a slowdown in retail space development, again due to oversupply.

The Government also announced a RM3 billion supplementary budget on 27 March 2001 to counter the effects of the US economic slowdown. Specifically, the following projects for immediate implementations that will benefit the construction sector are –

1. The construction of 200 single session schools worth RM2 billion,
2. The construction of 11 community colleges worth RM0.9 billion,
3. The construction of 4 universities in Perlis, Malacca, Pahang and Negeri Sembilan worth RM1.6 billion, and;
4. The construction of 6,600 units of housing quarters for the Armed Forces in Kuala Lumpur worth RM1.5 billion.

[28] 2001 Budget, The Star, Saturday, October 28, 2000.

5.2 Property Market Overview

A brief overview of the property market is included as it is closely inter-related with the construction and building materials industries (as seen from Chart 3). In fact, the construction and property markets are well known as the backbone of a country's economy and thus, always used as a gauge of economic health. The demand of property would have a direct linkage to the building materials industry, as increasing demand of property would filter down to rising demand of building materials for use in the development of property. Large projects such as the property development in Putrajaya and Cyberjaya would entail high demand of building materials, including drainage and sewerage systems, thus, indirectly affecting **OKAG** and the market it is operating in.

Heterogeneous would be the right word to describe the Malaysian property market. It would be extremely difficult to ascertain a standard unit of property, which could be tracked by price and quantity over time. Many factors affect the prices of property, location being the most widespread. Other more recent emerging factors include design, new concepts like the Purpose-Built Office Blocks ("PBOBs") with intelligent features and mega sized shopping complexes. Categories of property sub-sectors include residential, industrial and commercial. As **OKAG**'s niche is in drainage and sewerage culverts and pipes, the more relevant sub-sectors would be that of industrial and commercial property development.

5.2.1 Property Cycle

This industry is a cyclical one where supply is lumpy vs. demand, which usually grows quite smoothly. There tends to be periods of shortages and periods of oversupply. The lead-time required reaching end-product stage average at around 5 years in the US and locally about the same or less. This mismatch in the pace of supply and demand generally causes prices for rental or real properties to drop sharply before making a very slow recovery. This is because developers will ensure that occupancy rates for the existing supply hits 100% and further ensure that prices have recovered before embarking on another project. Existing investors would also require time to build confidence and return to invest in the property market. Thus this slowness in recovery will result in a tight supply situation, forcing prices up, causing the cycle to repeat itself once again.

In Malaysia, the last peak was recorded in 1983/1984 and the trough in 1987/1988, lasting a span of 3 – 4 years. The most recent uptrend lasted much longer, sustained by the superbull run, lasting for 9 years from 1988 – 1997. Benchmarked against the US property market, the local cycle appears much shorter due to different rates of demand.[29] Other local factors that influenced the industry cycle were limited amounts of top class buildings in prime locations and large exodus of occupants from less prime to prime during the boom. This mirrors the building materials and construction industries as discussed in Sections 6 and 8.1 above.

[29] Malaysia = 10%, US = 3%, Dynaquest Sdn Bhd

6 Future Industry Outlook

Malaysia is projecting to grow at an average of 7.5% per annum during the 8MP with low inflation and price stability. The private sector is envisaged to lead this growth with the public sector continuing its role in stimulating the economy. The economy will become less reliant on labour, in the country's efforts to develop a knowledge-based economy. Private investments are forecasted to grow at 19% annually and public investments at 1.1%. Supported by strong domestic demand and strong recovery in private investments, private consumption is expected to grow at 7.4% while public consumption is expected to grow at 7.7% per annum. It is expected that the per capita income will increase from RM13,359 in 2000 to RM17,779 in 2005, increasing private consumption per capita from RM6,198 in 2000 to RM9,073 in 2005.

The Malaysian Government's basis for growth in the 8MP period takes into account the challenges arising from a more liberal global economy and the impact of technological advancements. As such, greater efforts will be made to ensure the sustainability and resilience of the economy in the long term to achieve the country's Vision 2020 target.

6.1 Construction and Building Materials

Since the Asian crisis derailed most public and private sector plans resulting in a large unutilised budget of some RM44.1 billion under the Seventh Malaysia Plan ("7MP"), these backlog of projects will spillover into the 8MP, from 2001 – 2005. This sector is expected to grow at an average of 6.6% per annum during the Outline Perspective Plan 3 (OPP3) period from 2001 - 2011. Similar growth percentages are predicted by the 8MP, which charts the growth of this sector by 6.5%, taking into account excess supplies of office and commercial space. This augurs well for the construction, building materials and property sectors, as this marks the abundance of opportunities for growth within these inter-related sectors.

Table 8 Infrastructure Budget

	5thMP 1985 – 1990	6thMP 1991 – 1995	7thMP 1996 - 2000	8thMP 2001 – 2005E
Sector	(RM million)	(RM million)	(RM million)	(RM million)
Public	10,282	14,462	9,930	30,000
Private	7,826	14,399	34,147	17,074
Unutilised portion			44,147	
Total	18,108	28,861	88,224	47,074

Source: Various Malaysia Plans. 8MP numbers are estimates.

The Government has identified a list of critical infrastructure projects in areas such as Putrajaya, Multimedia Super Corridor, East Coast Expressway, Express Rail Link ("ERL"), water treatment and distribution, rail and road transport, power plants, and ports for the next 5 years. Essentially, these are the infrastructure projects needed to bring about efficiency gains and enhance Malaysia's long-term competitive position. The government will also place special emphasis on defence and education, and building of the social infrastructure (hospitals, etc.), which are of national interest.

Based on the review of major infrastructure, the bulk of infrastructure expenditure will be implemented from 2002 – 2004, with average spending of RM17.9 billion per annum.

In addition to this, the 8MP estimates a need for a total of 782,300 units of housing, 93.6% being new requirements and the balance being replacements of older units. Of these, 13.6% will be built in Selangor, 12.8% in Sabah, 11.5% in Johor and 9.8% in Perak. However, during the period 2001 – 2005, only 615,000 units will be built, with 50.7% funded by the public sector and the balance of 49.3% funded by the private sector. 66.7% of the 312,000 units built by the public sector are low cost units funded with the assistance of PPRB, this amounts to 192,000 units of low cost housing and 16,000 units of housing for the hardcore poor. The balance comprise of 37,300 units of low-medium cost housing, 46,700 of medium cost housing and 20,000 units of high-cost housing.

The breakdowns for private funded projects are 40,000 of low cost housing, 94,000 of low-medium cost housing, 64,000 of medium cost housing and 105,000 of high-cost housing.

Table 9 Major Infrastructure Projects 2001 onwards

(RM billion)	Project Costs	End Date
Roads		
New Pantai Expressway	0.7	2002
Western Dispersal Ring Road	1.6	2002
Kajang Traffic Dispersal Ring Road	1.4	2003
Guthrie Corridor Expressway	0.7	2003
Jelutong Expressway	0.4	2003
KL Elevated Highway	2.4	2005
East Coast Highway	2.6	2005
North West KL Traffic Dispersal Scheme	0.6	2005
Elevated Fedaral Highway	1.3	2005
Penang Second Link	1.7	2005
Rail		
People Rapid Transit Mover	2.5	2003
Express Rail Link (KL-KLIA)	2.4	2003
KTM Electrified Double Tracking	2.0	2003
KL Sentral Train Station & Commercial Development	3.5	2006
Utilities		
Powertek – combined cycle	1.0	2002
Segari Energy Ventures, Phase 3	0.8	2002
Perlis Power (650 MW)	2.6	2002
SKS Ventures, Perai	1.0	2003
Port Dickson IPP	1.5	2004
Janamanjung Power Plant	7.0	2004
Sg. Selangor Phase 3 water privatisation project	2.1	2004
SKS Ventures, Kedah	8.0	2005

(RM billion)	Project Costs	End Date
Natural gas pipeline – Malaysia to Thailand	3.8	2005
Serdang IPP	1.9	2005
Automan.Jimat IPP	7.6	2006
Interstate water treatment and distribution system	6.0	2007
- extension to Singapore	7.0	2014
Ports		
Tanjung Pelepas Port	0.3	2001
Pasir Gudang	0.1	2001
Kuantan Port	0.6	2003
Klang Westport	0.5	2004
Real Estate		
Putrajaya Phase 1	8.5	2004
Multimedia Super Corridor	20.0	2020
Jelutong Development	1.0	2010
JB Waterfront City	6.0	2015
Tanjong Tokong Land Reclamation	1.6	2015
Prolink	8.0	2022
Grand Total	**120.6**	

Sources: Budget 2000, Economic Planning Unit, Merrill Lynch and Various press reports.

The Government also announced a RM3 billion supplementary budget on 27 March 2001 to counter the effects of the US economic slowdown. Specifically, the following projects for immediate implementations that will benefit the construction and building materials sectors are –

1. The construction of 200 single session schools worth RM2 billion,
2. The construction of 11 community colleges worth RM0.9 billion,
3. The construction of 4 universities in Perlis, Malacca, Pahang and Negeri Sembilan worth RM1.6 billion, and;

4. The construction of 6,600 units of housing quarters for the Armed Forces in Kuala Lumpur worth RM1.5 billion.

However, the main area of concern would be the pace of implementation for the projects that have been allocated budgets, as delays in implementation would deprive the economy of the much-needed stimulus to generate growth. As a preventative measure, projects will now be monitored at a ministerial level; the Implementation Co-ordination Unit of the Prime Minister's Department is one such "watch-dog" set-up to expedite tenders and procurement. In addition, various ministries have been publicly warned to spend budget allocations or risk being penalised for sabotage.

Amidst this growing market, contractors should perform better, with better operating margins[30], and 2002 will see some money-losing contractors returning to profitability. Beyond 2001[31], historical trends and analysis of projects on hand dictate an upward march in the industry. As per previous cycles, it is expected that the construction industry will grow at a faster pace than the economy[32] after a 2-3 year lag. It is expected that by which time, the financial sector would have completed all major restructuring exercises, thus creating better opportunities for accelerating lending activities. This will lead to a spurt in the growth of the construction industry. By then, it is also expected that much of the commercial property overhang would have been absorbed by the growing economy. Building in the residential side will continue to rise in tandem with the rise in disposable income and civil engineering projects are also expected to continue.

However, this scenario of healthy growth is based on the assumption that there will be sustainable growth in the overall economy for the medium term, with no major upsets reported on the global economy front, especially in the US and Japan. Example, a collapse of Dow Jones will create a domino effect on the rest of the world, as the wealth of the stock market is widely believed to have helped sustained rapid economic growth in the recent years. On the local front, the soft levels of private investments is a cause for concern and Malaysia does face competition in attracting Foreign Direct Investments

[30] Building materials manufacturers (e.g. cement, iron, steel) are still offering attractive incentives and rebates to clear off stocks from the last boom.
[31] Real GDP forecast =+ 7.0%, Ministry of Finance.
[32] Estimated at year 2002., Property Market Report, 2000.

("FDIs"), with the opening up of China and other Asian markets. Similar to the scenario painted by the Dow, our own KLSE will also have profound impact on the available liquidity that can be channelled in to the construction and property markets. For example, at 1,200 points, the stock market was said to have the ability to generate an additional RM100 billion of wealth. Thus, the local construction and property industries are viewed with cautious optimism in the near and medium term.

6.2 Property Market

With government incentives and the completion of many access roads, the outlook for 2001 is optimistic for certain sub-sectors of the industry. However, demand in different cities is expected to be different, depending on the rate of growth in economic activity for that area.

In Kuala Lumpur, the demand for residential property will continue to be the most promising. While prices for shop houses are expected to stop declining and small single-digit increases may be possible for those located in strategic locations by the beginning of 2001. PBOBs will not fair as well since supply continues to exceed demand. An average of 8 million sq ft of new space in this category is going to be injected into the marketplace over the next 2 years.[33] Rental and prices may stop falling as landlord financial positions improve (lower interest rates, lower operating costs, etc.) but overall, the occupancy rates are expected to drop, signalling cautious sentiment in the market, as described in Section 9.1 above.

6.3 Future Outlook for OKAG

As an established manufacturer of concrete products such as reinforced concrete pipes, sewerage culverts and manholes as well as being an approved manufacturer recognised by the local authorities, **The Group** is well positioned to take advantage of the business opportunities in the new millennium. In line with the implementation of infrastructure

[33] Dynaquest Sdn Bhd

projects, modernisation, expansion and upgrading work proposed within the next 5years as outlined in the 8MP, **OKAG** envisage that it will be able to capture a bigger slice of the market share. In view of this, **OKAG** has ensured that its future plans for expansion to strategic locations (as outlined in Section 2.1.8) are strongly linked to the future development plans for the country.

As mentioned in the preceding sections, Malaysia's building materials industry and its inter-related industries will continue to record good growth in the medium to long term. This can be attributed to the government's emphasis on pump priming the local economy as well as the increasing accumulation of knowledge and skills of local contractors as a result of extensive R&D efforts and tie-ups with foreign firms leading to technology transfers. Generally, the demand for infrastructure and real estate will increase in line with the increased disposable income and a growing population.

Prospects in the other Asian markets are also positive in view of growing opportunities in the emerging markets and the market liberalisation in ASEAN. The overall positive outlook of the industry augurs well for **OKAG**. With extensive experience coupled with strong financial fundamentals, **The Group** is well positioned to capitalise on the opportunities and challenges in the local arena as well as to expand regionally. **The Group** will also keep looking out for new opportunities to expand their revenue base via the innovation of products and to venture into more developed countries. One such target country being Singapore.

Overall, it will be **The Group**'s strong commitment to innovation, developing their people and productivity/ efficiency improvements that will support them in facing the challenges ahead. With this winning formula in place, the **OKAG** is poised to enjoy the rewards of a bright and prosperous future.

11. DIRECTORS' REPORT

OKA CORPORATION BHD (519941-H)
(Incorporated in Malaysia)

Office address: 6, Lebuhraya Chateau, Off Pesiaran Kampar, 30250 Ipoh, Perak.
Tel : 05-2542741, 2542745, 2542746, 2542748, 2531734, 2525211/12
Fax : 05-2532403, 2411851

Registered Office

No.6, Lebuhraya Chateau
Off Pesiaran Kampar
30250 Ipoh
Perak Darul Ridzuan

Date: 24 April 2002

The Shareholders
OKA Corporation Bhd

Dear Sir/Madam,

On behalf of the Board of Directors of OKA corporation Bhd ("OKA Corporation"), I report after due inquiry that during the period from 31 October 2001 (being the date to which the last audited accounts of the OKA Corporation and its subsidiaries ("OKA Corporation Group") have been made up to the date hereof, being the date not earlier than fourteen (14) days before the issue of this Prospectus, that:-

(a) the business of the Company and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or its subsidiaries;

(c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realizable in the ordinary course of business.

(d) save as disclosed in Section 12.6 of this Prospectus, there are no contingent liabilities that have arisen by reason of any guarantees or indemnities given by the Company and its subsidiary companies; and

(e) since the last audited accounts of the Company and its subsidiaries save as disclosed in the Accountants' Report as set out in Section 8 of this Prospectus, there have been no changes in published reserve nor any unusual factors affecting the profits of the Company and its subsidiary companies.

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

IR ONG KOON ANN
Executive Chairman and Managing Director