3. PARTICULARS OF THE PUBLIC ISSUE

3.1 PRELIMINARY

This Prospectus is dated 15 April 2003. A copy of this Prospectus has been registered by the SC and lodged with the Chief Executive Officer of the CCM and neither the SC nor the CCM takes any responsibility for its contents.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the KLSE has prescribed SGB as a prescribed security. In consequence thereof, the Shares issued through this Prospectus will be deposited directly with the MCD and any dealings in these Shares will be carried out in accordance with the aforesaid Act and the Rules of the MCD.

An application will be made to the KLSE within three Market Days from the date of issuance of this Prospectus for admission of SGB to the Official List of the Second Board of the KLSE and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company, including the Issue Shares which are the subject of this Prospectus. The entire enlarged issued and paid-up share capital of SGB will be admitted to the Official List of the Second Board of the KLSE and official listing and quotation will commence after the receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all the successful applicants.

Acceptance of application for the Issue Shares will be conditional upon permission being granted by the KLSE to deal in and for the listing of and quotation for the entire enlarged issued and fully paid-up share capital of SGB on the Second Board of the KLSE. Accordingly, monies paid in respect of any application accepted will be returned without interest if the said permission is not granted within six weeks from the date of this Prospectus (or such longer period as may be specified by the SC) provided that the Company is notified by or on behalf of the KLSE within the aforesaid timeframe.

In the case of an application by way of Application Form, an applicant should state his CDS Account number in the space provided in the Application Form if he presently has such an account. Where an applicant does not presently have a CDS Account, he should state in the Application Form his preferred ADA Code. Where an applicant already has a CDS Account, he should not complete the preferred ADA Code. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS Account can make an Electronic Share Application, and the applicant shall furnish his CDS account number to the Participating Financial Institution by way of keying in his CDS account number if the instructions on the ATM screen at which he enters his Electronic Share Application requires him to do so. A corporation or institution cannot apply for the Issue Shares by way of Electronic Share Application.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and if given or made, such information or representation must not be relied upon as having been authorised by SGB or the Adviser. Neither the delivery of this Prospectus nor any issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of SGB or the Group since the date hereof.

The distribution of this Prospectus and the sale of the Issue Shares in certain other jurisdictions may be restricted by law. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for or an offer to sell any Issue Shares in any jurisdiction in which such invitation or offer is not authorised or lawful or to any persons to whom it is unlawful to make such an invitation or offer.

If you are in any doubt about this Prospectus, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

3.2 OPENING AND CLOSING OF APPLICATION LISTS

The application list for the Public Issue shall open at 10.00 a.m. on 15 April 2003 and will remain open until 8 p.m. on 26 April 2003 or for such period or periods as the Directors of the Company at their absolute discretion may decide. Late applications will not be accepted.

3.3 CRITICAL DATES

The critical dates relating to the Public Issue are set out below:

- ***Balloting***

  The balloting of the applications will be held in end April 2003

- ***Allotment of the Issue Shares***

  The Issue Shares will be allotted and the notices of allotment of the Issue Shares will tentatively be despatched to the successful applicants by early May 2003.

- ***Listing of and quotation for the Company's entire enlarged issued and paid-up share capital on the Second Board of the KLSE***

  The time and date of admission to the Official List of the KLSE and the dealing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the Second Board of the KLSE will be by mid May 2003.

3.4 SHARE CAPITAL

	RM
Authorised	
200,000,000 ordinary shares of RM0.50 each	100,000,000
Issued and fully paid-up	
87,671,000 ordinary shares of RM0.50 each	43,835,500
To be issued pursuant to the Public Issue	
12,329,000 ordinary shares of RM0.50 each	6,164,500
100,000,000 ordinary shares of RM0.50 each	50,000,000

There is only one class of shares in SGB, namely ordinary shares of RM0.50 each, all of which rank *pari passu* with each other. The Issue Shares will rank *pari passu* in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of allotment of the Issue Shares.

The new Shares to be issued pursuant to the Proposed ESOS shall, upon allotment and issue, rank pari passu in all respects with the then existing issued and paid-up Shares, provided that in the event there is any right to participate in any rights, allotments or any distributions, the new Shares shall rank pari passu with the then existing Shares if the relevant exercise date is before the Record Date save and except that such Shares will not be entitled to any dividends or any distributions declared or to be declared in respect of financial years immediately preceding the financial year in which the new Shares were issued. For the purpose hereof, 'Record Date' means the date as at the close of business on which shareholders must be registered as shareholders in order to participate in any dividends, rights, allotments or any other distributions.

Subject to any special rights attaching to any Shares which may be issued by the Company in the future, the holders of Shares in the Company shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and in respect of the whole of any surplus in the event of liquidation of the Company.

At any general meeting of the Company, each shareholder shall be entitled to vote in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder, shall have one vote, and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each Share held by them. A proxy may but need not be a member of the Company.

3.5 DETAILS OF THE PUBLIC ISSUE

The Public Issue is subject to the terms and conditions of this Prospectus, and upon acceptance, will be allocated in the following manner:

(a) **Directors, eligible employees, suppliers and persons who have contributed to the success of SGB and its subsidiaries**

2,500,000 Issue Shares have been reserved for the Directors, eligible employees, suppliers and persons who have contributed to the success of SGB and its subsidiaries;

(b) **Private placement**

6,829,000 Issue Shares will be placed to investors by the Placement Agent, of which at least 30% is to be placed, to the extent possible, to Bumiputera investors; and

(c) **Malaysian public**

3,000,000 Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera applicants.

The Issue Shares in respect of paragraph (a) above are allocated based on the following criteria:

(i) The Directors of SGB have been allocated an aggregate of 425,000 Issue Shares wherein the Chairman of SGB has been allocated 75,000 Issue Shares whilst the other Non-Executive Directors of SGB have been allocated 50,000 Issue Shares each. The CEO of SGB has not been allocated any Issue Shares;

(ii) The eligible employees of SGB and its subsidiaries have been allocated an aggregate of 1,352,000 Issue Shares. The criteria of allocation of the Issue Shares reserved for 304 eligible employees of SGB and its subsidiaries as at 28 February 2003 have been based on staff grades and length of service; and

(iii) The eligible suppliers and persons who have contributed to the success of SGB and its subsidiaries have been allocated an aggregate of 723,000 Issue Shares. The criteria of allocation of the Issue Shares reserved for 50 individuals/corporations, of which 7 of them are individual contractors and 1 of them is a technical adviser, have been based on their contribution to SGB and its subsidiaries.

The Issue Shares made available to the Malaysian public as stipulated under paragraph (c) above have been fully underwritten. Any Issue Shares in respect of paragraph (a) above which are not subscribed for by the Directors, eligible employees, suppliers and persons who have contributed to the success of SGB and its subsidiaries will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, and will also be underwritten. The Issue Shares in respect of paragraph (b) above need not be underwritten as irrevocable undertakings to subscribe for the said Issue Shares have been given by the identified placees.

There is no minimum subscription amount to be raised from the Public Issue as full subscription to the 12,329,000 Issue Shares is required for SGB to meet the public spread requirement under the Policies and Guidelines on Issue/Offer of Securities issued by the SC.

3.6 PURPOSES OF THE PUBLIC ISSUE

The purposes of the Public Issue are as follows:

(a) to provide an opportunity for the Malaysian public and Directors, eligible employees, suppliers and persons who have contributed to the success of SGB and its subsidiaries to participate in the continuing growth of the Group by way of equity participation;

(b) to provide SGB with access to the capital market to raise funds for future expansion and the continuing growth of the SGB Group; and

(c) to obtain a listing of and quotation for the entire enlarged issued and paid-up share capital of SGB on the Second Board of KLSE.

3.7 BASIS OF ARRIVING AT THE ISSUE PRICE

The issue price of RM1.38 per Issue Share was determined and agreed upon by the Company and RHB Sakura as the Underwriter based on various factors after taking into account the following:

(a) the forecast net PE Multiple of approximately 7.5 times *(Note 1)*;

(b) the Group's operating and financial history as outlined in Sections 6 and 12 respectively of this Prospectus;

(c) the prospects of the oil and gas, transportation engineering and fleet management divisions as outlined in Section 5 of this Prospectus; and

(d) the prevailing equity market conditions.

Note:

1 Based on the forecast consolidated net EPS of SGB of approximately 18.3 sen for the financial year ending 31 December 2003 (which is calculated based on the forecast consolidated PAT after deducting the pre-acquisition profits and on the weighted average number of Shares in issue) and the issue price of RM1.38 per Issue Share

However, investors should also take note that the market price of the Shares upon and subsequent to the listing of SGB on the KLSE are subject to the vagaries of market forces and other uncertainties, which may affect the price of the Shares being traded.

3. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

3.8 UTILISATION OF PROCEEDS

The total gross proceeds arising from the Public Issue of RM17,014,020 will accrue entirely to the Company and shall be utilised in the following manner:

	RM'000
Working capital	15,014
Estimated listing expenses	2,000
Total proceeds	17,014

The Group utilises trade and revolving credit facilities to meet its working capital requirements for the purchase of raw materials such as chemicals, barite ore, chassis, steel and aluminium. SGB proposes to utilise all of the proceeds to be raised from the Public Issue (net of estimated listing expenses of RM2,000,000) as additional working capital to finance the Group's day-to-day operations which may involve the repayment of the Group's trade and revolving credit facilities. The proceeds raised for working capital purposes from the Public Issue are therefore expected to improve the liquidity and cashflow position of the SGB Group.

The gross proceeds of RM17,014,020 arising from the Public Issue are expected to be fully utilised within 12 months from the receipt of the proceeds.

Further, the Directors of SGB intend to utilise the proceeds arising from the exercise of the Options for the Group's working capital purposes. Assuming that the total Initial Grant of up to a maximum of 9,000,000 Options are fully exercised at the exercise price of RM1.38 per Share, the total gross proceeds to be raised shall be RM12,420,000.

3.9 BROKERAGE, UNDERWRITING COMMISSION, PLACEMENT FEE AND ESTIMATED LISTING EXPENSES

(a) **Brokerage**

Brokerage relating to the Issue Shares is payable by the Company at the rate of 1.0% of the issue price of RM1.38 per Issue Share in respect of successful applications which bear the stamps of RHB Sakura, member companies of KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or the Issuing House.

(b) **Underwriting commission**

The Underwriter has agreed to underwrite the 3,000,000 Issue Shares to be issued to the Malaysian public. Underwriting commission is payable by the Company at the rate of 2.0% of the issue price of RM1.38 per Issue Share.

The Underwriter has further agreed to underwrite any of the 2,500,000 Issue Shares not subscribed for by the Directors, eligible employees, suppliers and persons who have contributed to the success of SGB and its subsidiaries. Underwriting commission is payable by the Company at an underwriting commission of 2.0% of the issue price of RM1.38 per Issue Share.

(c) **Placement fee**

The Placement Agent's fee for the placement of 6,829,000 Issue Shares is payable by the Company at the rate of 0.75% of the issue price of RM1.38 per Issue Share.

(d) **Estimated listing expenses**

The listing expenses are estimated to be RM2,000,000, of which the details are as follows:

	RM'000
Professional fees	950
Authorities' fees	76
Advertisement and printing expenses	400
Brokerage fees	170
Underwriting commission	152
Placement fees	71
Issuing House's fees	100
Contingencies	81
	2,000

3.10 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

An underwriting agreement has been entered into between the Company and RHB Sakura, being the Underwriter, on 21 March 2003 to underwrite the Issue Shares mentioned in Section 3.9(b) above. The salient terms of the underwriting agreement are summarised below:

(a) The obligation of the Underwriter to underwrite the Issue Shares referred to in Section 3.9(b) above (the "Underwritten Shares") is conditional, *inter alia*, upon the following:

(i) the completion of the Acquisition and the Transfers by Scomi;

(ii) there not having been on or prior to the closing date for the Public Issue (being a date no later than 3 calendar months from the date of the Underwriting Agreement or such later date as the Company and the Underwriter may agree upon) ("Closing Date") any adverse change nor any development reasonably likely to involve a prospective adverse change in the financial or other condition of the SGB Group from that set forth in the Prospectus, which is, in the opinion of the Underwriter, material in the context of the Public Issue; and

(iii) no occurrence of any event on or before the Closing Date that would have the effect of rendering any of the representations and warranties given by the Company in the Underwriting Agreement untrue and incorrect in any material respect.

(b) The Underwriter may by notice in writing to the Company given at any time before the Closing Date, terminate and cancel and withdraw its commitment to underwrite the Underwritten Shares if, *inter alia*, the following occur:

(i) there is any material breach by the Company of any of the representations, warranties or undertakings given by it under the Underwriting Agreement which, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, or by the Closing Date, whichever is earlier, or withholding of information of a material nature from the Underwriter, which, in the opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Public Issue; or

(ii) there is withholding of information of a material nature from the Underwriter, which, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, which, in the opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the SGB Group, the success of the Public Issue; or

(iii) there shall have occurred, happened or come into effect any material and adverse change to the business or financial condition of the SGB Group, which, in the opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or the operations of the Group, the success of the Public Issue, or which is likely to have the effect of making any material part of the Underwriting Agreement incapable of performance with its terms pursuant to the underwriting thereof.

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4. RISK FACTORS

INVESTORS SHOULD RELY ON THEIR OWN EVALUATION AND ARE ADVISED TO CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) WHICH MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF THE SGB GROUP IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE HEREIN BEFORE APPLYING FOR THE ISSUE SHARES.

4.1 ECONOMIC, POLITICAL AND REGULATORY RISKS

The SGB Group's business, prospects, financial conditions and level of profitability may be affected by the development of the economic, political and regulatory environment in Malaysia. Any adverse development in the political situation, economic uncertainties or changes in the regulatory environment could materially and adversely affect the financial performance of the SGB Group. These risks include risks of war, global economic downturn, changes in interest rates and unfavourable changes in Government policies such as introduction of new regulations, import duties and tariffs.

Whilst the SGB Group practices prudent financial management and efficient operating procedures, there is no assurance that adverse political and economic developments, which are beyond the Company's control, will not materially affect the SGB Group.

4.2 LEVEL OF DRILLING ACTIVITY

The operating results of the SGB Group are dependent to a significant extent upon the performance of the drilling fluids and engineering services undertaken by KMC, which accounted for approximately 62.8% of the SGB Group's total turnover for the financial year ended 31 December 2002. The performance of KMC's mud engineering business is in turn dependent upon the level of drilling activities offshore Malaysia which is affected to a certain extent by the prevailing crude oil prices.

In the event crude oil prices drop significantly, companies may reduce or postpone oil and gas production and exploration activities in Malaysia, resulting in the reduction in the level of domestic drilling activity. A prolonged period of depressed crude oil prices could have a material impact on the SGB Group's financial condition. However, this risk is mitigated to the extent that the Malaysian oil and gas industry accounted for approximately half of Malaysia's primary energy supply in 2001 and is expected to continue to contribute as the major energy source for Malaysia.

Notwithstanding the above, there is no assurance that any significant reduction in the level of drilling activities arising from reduction of crude oil prices or changes in production plans by the major oil exploration companies would not have a significant impact on the SGB Group's operation.

4.3 GROWTH PROSPECTS OF THE MALAYSIAN DRILLING FLUIDS INDUSTRY

According to the Independent Market Research Report issued by Frost & Sullivan dated 18 November 2002, the level of oil reserves in Malaysia has been on a declining trend mainly due to a lack of major discoveries in recent years. The situation may improve though should such exploration work in Malaysia lead to new oil field discoveries offshore Malaysia.

In the meantime, PETRONAS has embarked on an international exploration and production strategy, and consequently, Malaysian drilling fluids companies which have registered their interest with PETRONAS for its overseas bidding exercises, could gain from PETRONAS' venture abroad if they are able to secure global mud engineering service contracts with PETRONAS. As such, whilst Malaysia's market for drilling fluids may decline if there are no discoveries offshore Malaysia, long term global partnerships to supply PETRONAS' world-wide operations may be a lucrative endeavour for drilling fluids companies in Malaysia. Nonetheless, there is no assurance that any success by PETRONAS in its venture abroad will benefit Malaysian drilling fluids companies.

4.4 LICENSING RISKS

The activities of the SGB Group are governed by various licences which are held by its subsidiaries. In respect of the oil and gas division, PETRONAS is the main licensor governing KMC's operations for the provision of drilling fluids and mud engineering services in Malaysia ("PETRONAS Licence"). The PETRONAS Licence enables KMC to supply drilling chemicals, equipment and services to the oil and gas industry within Malaysia and is subject to certain employment and operating conditions imposed therein. The current licence held by KMC which is subject to annual renewal, had expired on 31 March 2003. However, KMC had on 27 March 2003 received notification from PETRONAS that its application for the renewal of this licence had been approved, subject only to the payment of the requisite renewal fee. Accordingly, KMC had made full payment of the said fee and is currently awaiting the issuance of the renewed licence by PETRONAS.

Other licences governing KMC's operations include various supply, trading and poison licences issued by the relevant ministries and state departments. The importation of certain raw materials by KMC is also subject to the issuance of permits by the relevant regulatory authorities.

As for the transportation engineering division, Scomi has a MITI licence to fabricate trailers, truck-mounted equipment and body and special purpose equipment for commercial vehicles. It also has various registrations for, *inter-alia*, the manufacture of non-flammable pressure vessel tankers, aerial platform structures and weighing and measuring equipment. These licences and registrations impose stringent requirements on the manufacturing process. Any failure to meet such requirements may result in the withdrawal of these licences or registrations, which may have an adverse impact on its operations.

In particular, Scomi's registration for the manufacture of non-flammable pressure vessel tankers, which is issued by DOSH and is subject to renewal every two years, had expired on 15 February 2003. Whilst the renewal process for this registration had commenced in December 2002, the renewed registration remains pending at this juncture. However, Scomi has not experienced any problems with the renewal of the said registration since it was first issued by DOSH in 1992.

The fleet management division currently has 81 active hire and drive licences for its "hire and drive" rental business, of which 18 have been issued by the Commercial Vehicle Licensing Board ("CVLB") whilst the remaining 63 have been issued by MCAT. The CVLB was the previous regulatory body governing "hire and drive" activities in Malaysia before MCAT assumed its functions in 2001.

Nonetheless, there is no assurance that the current licences and permits held by the SGB Group will be renewed by the relevant authorities and licensors, or if they are renewed, that such renewal would be effected within the anticipated timeframe, which may materially affect the operations of the Group. However, the SGB Group has not experienced any problems over the past ten years in renewing its licences and permits with the relevant authorities and licensors. Further, the SGB Group does not foresee any potential problems in renewing its existing licences and permits when they become due.

4.5 COMPETITION

The SGB Group faces competition in its oil and gas, transportation engineering and fleet management businesses.

In addition to KMC, there are currently two other major players which are actively involved in the provision of drilling fluids and mud engineering services in Malaysia, namely, Baker Hughes Inteq and Magcobar-Imco Drilling Fluids Inc. These companies are international drilling fluids and mud engineering service providers and represent direct competition to the oil and gas service activities of the Group. However, KMC has been able to maintain and increase its market share in Malaysia by being the only Malaysian company with a proven track record in the business in addition to having the critical support facilities needed to support the drilling and mud engineering business. KMC's position is further enhanced by the high barriers to entry for the domestic drilling fluids industry due to the high capital requirements needed to implement the requisite comprehensive infrastructure.

For the financial year ended 31 December 2001, KMC accounted for approximately 82% of the total drilling fluids and mud engineering services revenues in Malaysia.

(Source: Independent Market Research Report by Frost & Sullivan dated 18 November 2002)

Whilst the management of KMC believes that its proven track record and team of experienced and skilled engineers will enable the company to remain competitive in the future, there can be no assurance that KMC will be able to maintain or increase its market share in the future in light of competition from existing players and / or potential new entrants to this industry.

Unlike KMC, the market for transportation vehicles is a fragmented market with competition from both local and foreign companies and a significant number of smaller local manufacturers and traders that offer a smaller range of standardised products. Due to the low barriers to entry in the road transport hardware industry, competition mainly revolves around the pricing factor. The numerous smaller local manufacturers and traders are usually able to offer competitively priced products due to their focus on a smaller range of products which enables them to manufacture at a lower cost.

To mitigate this risk, Scomi emphasises on timely delivery and after-sales service to ensure total quality service for its customers. In addition, the Scomi Group has been able to penetrate the overseas market by focusing on higher quality, value added and customised products such as airport ground support equipment and oil and gas transportation vehicles.

However, there can be no assurance that these strategies will prove effective in countering the effects of greater price competition.

With regards to the fleet management division, there are few major players in the hire and drive business which are dominated by international companies such as Avis Malaysia, Budget Car Rental Malaysia and Hertz Corporation. Further, it is anticipated that the car market industry in Malaysia will be affected by the implementation of the ASEAN Free Trade Area ("AFTA") in 2005. Whilst the level of "hire and drive" rentals may increase in the event car prices are reduced, the liberalisation of the economy and the reduced barriers to entry arising from AFTA in 2005 could result in increased competition in the domestic car rental business. There is therefore no assurance that there will not be any increase in competition arising from the implementation of AFTA.

4.6 HEALTH AND SAFETY RISKS

As part of KMC's operations, it is continually involved in the handling, storage and transportation of various hazardous chemicals, which may be toxic and flammable. Such chemicals include caustic soda and aluminium stearite. The activities of KMC are therefore subject to disruption by a variety of risks and hazards which are beyond its control, such as fires, explosions, chemical leakage and other accidents at its production and storage facilities and chemical laboratories. These risks could ultimately result in damage to KMC's infrastructure, personal injury, business interruption and possibly legal proceedings. To address these risks, KMC has established a detailed health, safety and environmental policy that clearly sets out the safety measures for and handling at each level of operation that are strictly adhered to by its employees.

While KMC emphasises on health and safety throughout all levels of its operations and undertakes continuous health and safety training for its employees, there is no assurance that accidents and damages will not occur. However, KMC believes that this risk is minimised through its stringent health and safety practices, which includes an annual audit of its health and safety record. Notwithstanding the above, KMC has developed and implemented an emergency response plan in order to cater for any accidents at KMC's office and operational facilities.

Although KMC believes that it has maintained an adequate level of insurance coverage, no assurance can be given that any coverage arranged will be adequate and available to cover any claims arising therefrom. Notwithstanding the above, over the past ten years, KMC has not experienced any major health, safety and environmental accident nor has it incurred any major loss resulting in a substantial claim against its insurance policy.

4.7 ENVIRONMENTAL CONCERNS

The SGB Group believes that its existing operations are in strict compliance with the relevant environmental legislation governing activities within Malaysia. Nevertheless, there is a possibility that the Government may change its regulations with regards to environmental matters in the future which would require the group to modify its facilities or incur expenses that could have an effect on the Group's operating results. In the event the relevant environmental regulations in Malaysia are changed, no assurance can be given that the ensuing steps taken by the Group to comply with such new regulations will not have a material effect on its operating results.

4.8 AVAILABILITY AND COST OF RAW MATERIAL

KMC purchases its chemicals from its regular suppliers at prices which are fixed under the supply contracts and agreements. These contracts and agreements have an average duration of approximately six months. KMC has not experienced in the past and does not foresee any difficulty in its supply of chemicals. Further, the management of KMC believes that its supply of chemicals are available from many established suppliers.

The main component and raw materials used by the Scomi Group are the chassis, steel, stainless steel and aluminium. It does not foresee any difficulty in the procurement of the chassis or the raw materials as most of the chassis are sourced from many chassis suppliers and the raw materials are readily available and are being sourced from a relatively large number of steel suppliers.

Notwithstanding the above, there is no assurance that the SGB Group's operations will not be adversely affected by increases in costs of, inadequate and/or delays in the supply of chemicals or other raw materials.

4.9 RENEWAL OF TENANCY AGREEMENT

KMC has two supply bases located at KSB in Terengganu and ASB in Labuan to provide support services to its daily offshore operations. Both the operational facilities are located on rented premises. Whilst the tenancy for KSB has been recently extended to the year 2014, the tenancy for ASB is due to expire in 2006. In the event the tenancy agreement for ASB is not renewed upon similar or favourable terms, or should KMC be unable to renew such tenancy agreement with the proprietor, KMC's operations at ASB could be materially affected.

Notwithstanding the above, KMC has established a good working relationship with ASB over the past 10 years, and therefore, KMC does not foresee any problems in securing the renewal of its tenancy at ASB in 2006.

4.10 FOREIGN EXCHANGE FLUCTUATIONS

KMC imports some of its raw materials directly from the US, Europe, India, Singapore, China and Australia, with such purchases being predominantly denominated in US Dollar. As at 31 December 2002, the KMC Group had approximately USD461,954 of monetary liabilities. For the financial year ended 31 December 2002, the Scomi Group imported approximately 58.3% of its raw materials and exported approximately 30.9% of its finished goods.

Although the Ringgit is currently pegged to the US Dollar, there is no assurance that the peg will not be adjusted or removed. Any revision or removal of the peg could expose the Group to foreign exchange risks and may have a material impact on the financial condition of the Group.

4.11 DEPENDENCE ON PRINCIPAL PRODUCTS AND MAJOR CUSTOMERS

The provision of drilling fluids and mud engineering services to the oil and gas industry by KMC represents the core business activity and main contributor to the SGB Group's profits. Consequently, the main customers of KMC and hence, the SGB Group are Petronas Carigali, EPMI and Shell. The provision of drilling fluids and mud engineering services to these customers account for an aggregate of approximately 61.1% of the SGB Group's total turnover for the financial year ended 31 December 2002.

The supply of drilling fluids and mud engineering services to the PSCs is carried out in accordance with the drilling schedules specified by each PSC. The current drilling cycle is for a fixed primary period of three years up to mid-2003, with the PSCs having the option to extend their respective contracts for a further period of one year plus one year thereafter.

In accordance with the terms of such services, the PSCs may terminate the provision of services by KMC in the event of its non-conformance with the performance standards required thereunder. Should this occur, the operations of KMC would be materially affected. There is also no assurance that the PSCs will exercise the extension options in respect of the additional two years.

However, KMC has been actively involved in the provision of drilling fluids and mud engineering services since 1992, and to date, has not breached any terms which has resulted in the termination of any of its projects with the PSCs. Further, KMC has maintained good performance records with the PSCs, and the stringent quality control procedures implemented throughout its operations ensures that its products and services conform to the high standards expected by its customers. As such, in view that the PSCs have in the past chosen to exercise their extension option for the remaining two years, and based on KMC's current performance under these contracts, KMC is confident that the PSCs would exercise the extension option.

Notwithstanding the above, in an effort to sustain its core business activity and to reduce its dependence on the 3 main PSCs, KMC has participated in several tender exercises by other potential customers, both domestically and internationally. Evidencing KMC's efforts, in November 2002, KMC received a letter of award from Greater Nile Petroleum Operating Company Limited for the provision of drilling fluids and mud engineering services in Sudan.

Further, the SGB Group is continuously reducing its dependence on the PSCs through the expansion of the Group's other businesses, such as its transportation engineering and fleet management businesses.

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4.12 DEPENDENCE ON SKILLED WORKFORCE AND KEY PERSONNEL

The activities of the SGB Group requires a highly skilled workforce. In this respect, to a certain extent, the Group's ability to attract and retain its highly skilled workforce, especially engineers in both the oil and gas and transportation engineering divisions, is crucial to sustain an efficient level of operations within the Group. If the Group is unable to attract and retain its skilled workforce, the performance and future prospects of the SGB Group may be adversely affected.

Further, the Group believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its existing Directors, senior management and key technical personnel. The loss of any key members of the Group's Directors, senior management or key technical personnel could adversely affect the Group's competitive advantage.

With a view to retaining their services and encouraging them to improve their performance standards and efficiency, SGB is proposing to implement an employees' share option scheme in conjunction with the Flotation Scheme for the benefit of the Group's eligible employees and executive directors. Further, the Group has adopted a management succession plan (as set out in Section 6.5.6 of this Prospectus) to provide incentives and develop training programmes for its staff to improve performance and productivity. Nonetheless, there remains no assurance that the Proposed ESOS and the Group's management succession plan will be able to retain its workforce and key personnel.

4.13 INVESTMENT IN A NEW BUSINESS IN WHICH THE GROUP HAS LIMITED PRIOR EXPERIENCE

The SGB Group has historically been involved in the oil and gas and transportation engineering businesses. In 2002, the Group acquired the entire equity interest in SMAS and its fleet management business. The limited prior experience of the Group in fleet management activities would therefore subject the Group to risks and uncertainties in relation to its ability to implement its business plan for this new activity. However, the SGB Group has retained the former managing director and senior management team of SMAS who shall continue to manage the fleet management business. The managing director of SMAS has, on 9 August 2002, given a written undertaking to the SGB Group stating that he will remain with SMAS or alternatively act as a consultant to SMAS for a further period of 18 months therefrom. In addition, the Company believes that there are opportunities for its fleet management businesses arising from the Group's established relationships with its existing corporate clients.

In the event the SGB Group is unsuccessful in addressing these risks and uncertainties, it could affect the financial condition of the Group to the extent of SMAS' contribution to the Group's future financial performance.

4.14 SUBSIDIARY'S DEPENDENCE ON SINGLE CUSTOMER

Under the transportation engineering division, Scomi, through its wholly owned subsidiary, SCOPE, had in September 2001, ventured into the manufacturing of high-precision engineering products as an OEM. To-date, SCOPE has only secured one contract to supply specified precision engineering components and parts and the contract is due to expire by end of 2003. Although the customer has verbally indicated continual relationship and that new contracts shall be awarded to SCOPE after the expiry of the existing contract, there can be no assurance that such expectation will be realised.

Although SCOPE has taken efforts to secure new contracts, no assurance can be given that any failure in the procurement of new contracts will not have any material impact on the Group's financial performance. For further details on the measures undertaken by SCOPE, please refer to Section 6.5.2(h) of this Prospectus.

4.15 OWNERSHIP AND CONTROL

Kaspadu and Onstream Marine collectively hold an aggregate of 53,242,125 Shares which represents approximately 53.2% of the enlarged issued and paid-up share capital of SGB upon completion of the Public Issue.

Kaspadu and Onstream Marine will therefore be able to exercise the voting rights attached to its holding of the Shares in respect of matters requiring shareholders' approval, including the election of directors. Depending on how they choose to vote and because of the size of their collective shareholdings, the controlling shareholders will have a significant influence over matters that require the passing of ordinary resolutions from the Company's shareholders, unless they are required to abstain from voting by law and / or the relevant authorities.

4.16 RISKS ASSOCIATED WITH COVENANTS UNDER FACILITY AGREEMENTS

The SGB Group has obtained loan facilities to finance, *inter-alia*, its day-to-day operations. As with many agreements relating to the extension of such facilities, there may be certain negative covenants, fixed asset charges and / or pledges imposed therein. Any failure by the SGB Group to meet the timely repayment of such facilities may result in a default of the same which could materially affect the operating and financing capabilities of the SGB Group. Further, in the event the Group is unable to refinance or replace such defaulted facilities, the same could result in a loss of the fixed asset charged under such defaulted loans.

As at 2 April 2003, approximately 80.1% of the Group's total facilities comprised of short-term trade borrowings. In this respect, notwithstanding the potential occurrence of the aforementioned events of default which could materially affect the operating and financing capabilities of the Group, the Directors of SGB do not anticipate any potential events of default to arise for the SGB Group in the foreseeable future.

4.17 PROFIT FORECAST AND FORWARD LOOKING STATEMENTS

This Prospectus contains profit forecast made by the SGB Group that are based on assumptions which are deemed by the Directors of SGB to be reasonable at this point in time. However, there can be no assurance that the profit forecast contained herein will be realised. As the actual results may be materially different from those forecast, investors are advised to read and understand the assumptions and uncertainties underlying the profit forecast.

In addition, certain statements in this Prospectus are based on historical data which may not be reflective of future results. Other statements which are forward looking in nature are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward looking statements. The inclusion of a forward looking statement in this Prospectus should not be regarded as a representation or warranty by the Company or its advisers that the plans and objectives of the SGB Group will be achieved.

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4.18 FAILURE / DELAY IN THE LISTING

The Listing is exposed to the risk that it may fail or be delayed should the following events occur:

(a) The placees under the private placement fail to subscribe to the portion of the Issues Shares allocated to them notwithstanding that they have given irrevocable undertaking letters to subscribe for such Issue Shares; or

(b) The Company is unable to meet the public spread requirement of at least 25% of the issued and paid-up share capital of the Company being held by a minimum of 750 public shareholders holding not less than 100 Issue Shares each, of which at least 500 of these shareholders must not be employees of SGB and its subsidiaries.

4.19 NO PRIOR MARKET FOR THE SHARES

There has been no prior market for the Company's Shares before the Public Issue. Consequently, there can be no assurance that an active market for the Shares will develop upon their listing on the Second Board of the KLSE, or if developed, that such market will be sustained.

4.20 VOLATILITY IN THE PRICE OF THE SHARES

The issue price of RM1.38 per Issue Share has been determined after taking into consideration a number of factors, including, *inter-alia*, the Group's financial and operating history and prospects, the prospects of the oil and gas, transportation engineering and fleet management industries, the management of the Group, the market prices of the Group's competitors and the prevailing equity market conditions. However, there can be no assurance that issue price of the Issue Shares will correspond to the market prices of the Shares after the Public Issue.

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5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

THE FOLLOWING DISCUSSION ON THE MALAYSIAN ECONOMY AND THE INDUSTRIES IN WHICH THE SGB GROUP OPERATES IS NOT INTENDED TO BE EXHAUSTIVE BUT REFLECTS SOME OF THE FACTORS WHICH ARE CONSIDERED RELEVANT TO UNDERSTANDING THE BUSINESS AND PROFITABILITY OF THE SGB GROUP BASED ON PREVAILING REGULATIONS, ECONOMIC TRENDS AND DEVELOPMENTS.

5.1 INTRODUCTION

The SGB Group is involved in three distinct types of industry:

(a) Oil and gas;

(b) Transportation engineering; and

(c) Fleet management.

The products and services offered by the Group are closely influenced by the developments of various industries as illustrated in the table below:

Products and services	Related industries
Drilling fluids and mud engineering	Oil and gas
Transportation hardware	Infrastructure and utilities
Precision engineering components and parts	Manufacturing
Car rentals	Services and tourism

5.2 ECONOMIC OVERVIEW

Recovery of the Malaysian economy gained momentum in 2002 amidst a more challenging external environment. Real economic growth turned positive in the first quarter and strengthened to 5.6% in the fourth quarter. For the year 2002 as a whole, real GDP expanded by 4.2% as compared with 0.4% in 2001.

Economic growth was broad based, driven by strong domestic demand and reinforced by improved export performance. While public expenditure was strongly supportive of economic activity, growth was reinforced by sustained strength in consumer spending and external demand. The low interest rates which improved the access to financing has provided strong stimuli for private sector expenditure to grow.

External demand recovered in 2002 and provided an important contribution to overall growth and consequently real exports of goods and services turned around to increase by 3.6% after contracting by 7.5% in 2001. The main impetus for stronger export performance in 2002 was from the manufacturing and tourism sectors.

The global economic outlook for 2003 continues to be affected by the geopolitical and economic uncertainties and the adverse impact of sharply rising oil prices on private sector consumption and investment. Underlying growth, however, remains positive, supported by fundamentals. Whilst growth would likely to be remain positive, the magnitude of this growth would depend largely on the influences arising from the geopolitical tensions in the Middle East and the impact on consumers and businesses in the major industrial economies.

Given the global economic uncertainty, growth in the Malaysian economy in 2003 would be mainly domestic driven, supported by a modest growth in external demand. Real GDP growth has the potential to be sustained in the region of 4.5% in 2003 (4.2% in 2002). However, unlike 2002, when the public sector remained the principal driver of economic growth, private sector demand is expected to assume a more significant role in driving economic expansion in 2003 as the improved domestic fundamentals would provide support for the sustained consumption and continued recovery in private investment.

Nevertheless, there are downside risks to the growth forecast emanating from the external sector, which could affect the momentum of recovery as well as the outlook for the Malaysian economy. On the external front, a prolonged global uncertainty would result in a "wait-and-see" attitude which would cause delays in the expansion of investment and the expected pick-up in the electronics industry. For Malaysia, should the recovery in private investment seen in the second half of 2002 not gain momentum, real GDP growth could be weaker than expected.

(Source: Bank Negara Malaysia ("BNM") Annual Report 2002)

5.3 INDUSTRY OVERVIEW

5.3.1 Overview of the oil and gas industry

The information set out below has been sourced and / or extracted from the Independent Market Research Report issued by Frost & Sullivan dated 18 November 2002 ("Frost & Sullivan Report"). For further details, please refer to the Frost & Sullivan Report set out under Section 14 of this Prospectus.

(a) Overview of the Malaysian oil and gas industry

Malaysia is a mature oil producing country and the Government's stated policy is to continue to develop its oil and gas reserves. Malaysia's oil and gas fields are almost entirely offshore, either off Sarawak or Peninsular Malaysia (and now extending north to the Gulf of Thailand to the shared waters with Thailand).

In Malaysia, PETRONAS, which was formed in 1974 as a state entity with a mission to develop Malaysia's oil and gas industry, is the dominant oil and gas company. PETRONAS controls oil production in Malaysia through partnerships with EPMI and Shell. PETRONAS and these large oil companies jointly run Malaysia's upstream oil industry. No private company can hold complete ownership of an upstream petroleum project, meaning that all operators are effectively joint ventures with PETRONAS. The oil and gas industry accounted for approximately half of Malaysia's primary energy supply in 2001 and is expected to continue as the major energy source for Malaysia.

Drilling activities are expected to continue and provide demand for drilling fluids in Malaysia. Malaysia contains proven oil reserves of 3.9 billion barrels, down from 4.3 billion barrels in 1996. Despite this trend toward declining oil reserves due to a lack of major new discoveries in recent years, Malaysia's crude oil production has been stable in recent years, with monthly production numbers fluctuating between 660,000 barrels per day ("bbl/d") and 730,000 bbl/d between 1996 and early 2001. In 2000, crude oil production averaged 690,000 bbl/d. In 2001, Malaysia produced an average of 3,969 million cubic feet of natural gas per day. At current production rates, Malaysia has approximately 14 years of crude oil reserves remaining and approximately 38 years of gas reserves or about 81.7 trillion cubic feet. However, Malaysia is embarking on production sharing contracts with international oil exploration companies to attract exploration interests in its water. These steps are encouraging activities for discoveries in Malaysia.

(Source: Independent Market Research Report by Frost & Sullivan dated 18 November 2002)

(b) **Overview of the drilling fluids industry**

The provision of drilling fluids and related services represents one of the seven major service providers required for the operation of drilling rig activities. Drilling fluids can be categorised as oil field chemicals and are usually mixed with water, clay or viscosifiers, weighting materials such as barite, and chemicals. Drilling fluids are primarily pumped into drilling wells to reduce the friction of drilling activities. The fluids are required to provide numerous functions in the drilling process, such as the transportation of the drilled formation cuttings to the surface for analysis and disposal, the control of sub-surface formation pressures and the maintenance of borehole stability.

Drilling fluid systems

Drilling fluids can be broadly segmented into three different systems, namely water-based, oil-based and synthetic. In view of its compliance with environmental standards, the water-based drilling fluid systems are the most prevalent in Malaysia and represent approximately 55% of the total drilling fluids market. However, water-based systems have been known to not provide dependable drilling performance in certain complex drilling environments where in the past oil-based systems were used.

Utilisation of the oil-based systems is expected to decline from the prevailing level of approximately 30% as companies become more environmentally conscious, despite their proven success in the drilling of certain complex environments. The smallest segment is the synthetic drilling fluid system. Higher use of synthetic drilling fluids could potentially reduce drilling costs by reducing the drill time. However, synthetic drilling fluids are more costly than the water and oil-based systems and their utilisation has thus far been restricted by the uncertainty surrounding their performance and compliance with environmental standards.

Market demand

The end users of drilling fluids are predominantly the oil and gas exploration and production companies whilst a small amount of drilling fluids is utilised in other activities such as tunnelling activities, water-wells, mineral explorations and soil investigation activities. In this respect, the market for drilling fluids in Malaysia is almost solely driven by the oil and gas industry and consequently, the demand for drilling fluids in Malaysia is dependent to a certain extent upon the continued growth in oil exploration and drilling activities. Continued demand for environmentally friendly products is also expected to drive the next generation of drilling fluids.

Currently, there is a limited pool of end users for the drilling fluids market with utilisation generally being limited to the oil and gas drilling companies such as Petronas Carigali, Shell and EPMI. The merger, consolidation and alliances in the global oil and gas industry have further reduced the number of end users, thereby resulting in an increase in competition for customers. As this consequently increases the pressure on drilling fluid prices, other factors such as technical expertise, quality control and production and warehouse facilities emerge as determining factors in the survival of the drilling fluid service providers within the industry.

Barriers to entry

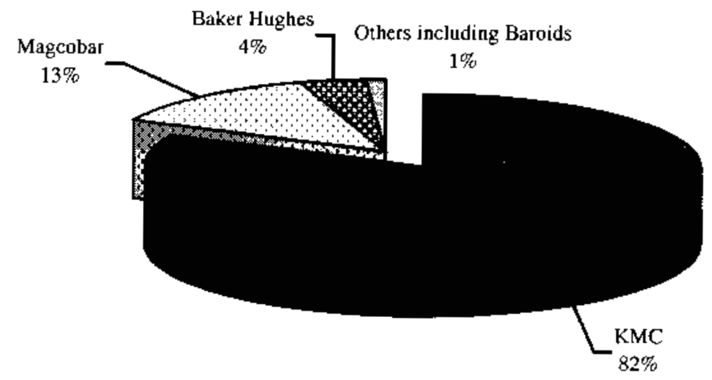
The number of drilling fluid service providers is restricted by the high cost of entry into the industry, which has a very high ratio of fixed to variable costs. Fixed costs in the drilling fluids industry include warehousing facilities, onshore mud storage facilities, mud laboratories, possibly a barite mill and bulking facilities and capabilities in mud engineering software. Without these support facilities, it may be difficult for new drilling fluids companies to secure projects with the end users or drilling operators. New entrants into the drilling fluids market could be further discouraged by the prevailing high competition for end users.

Competition

Competition within the drilling fluids industry is high, as there are only a limited number of end users. The three pertinent competitive factors in the Malaysian drilling fluids market are pricing, technical expertise and service and the availability of support facilities. According to the Frost & Sullivan Report, there are currently only 4 market participants in Malaysia. These are KMC and three notable foreign companies, namely Magcobar-Imco Drilling Fluids Inc ("Magcobar-Imco"), Baroids Drilling Fluids Inc ("Baroid") and Baker Hughes Inteq ("Baker Hughes"). There is also one new entrant to the drilling fluids market, a Malaysian company called Yaztec Sdn Bhd.

Their respective share of the domestic drilling fluids market in 2001 are shown below:

Total Malaysian drilling fluids market - Market share of major participants in 2001



There is no independent distributor for drilling fluids and the distribution chain is short, being direct from suppliers to the drilling operators. Suppliers in Malaysia directly bid or tender for drilling projects which typically last for about five years.

Environmental legislation

There is at present no specific set of regulations governing the use, treatment and disposal of oilfield drilling fluids or waste in Malaysia. The domestic oil industry's waste management provision is governed by the Environmental Quality (Scheduled Wastes) Regulations, 1989, whilst the licensing of treatment and disposal sites is governed by the Environmental Quality (Prescribed Premises Scheduled Wastes Treatment and Disposal Facilities) Regulations, 1989. Frost & Sullivan believe that it is unlikely that any significant changes to the current set of regulations will be implemented in the next 4 to 5 years. However, there has been a recent inclusion of biodiversity regulations that aim to limit and regulate activities which may have an effect on life forms. As such, prior to the implementation of any projects, the industrial operator would be required to catalogue and audit the impact of such projects on the life forms within the area. This may develop as an important market driver of new environmental technologies in drilling fluids, especially in biologically sensitive areas.

(Source: Independent Market Research Report by Frost & Sullivan dated 18 November 2002)

Raw materials

Almost 70% of the production costs for drilling fluids are raw material costs. Most of the raw materials that go into the production of drilling fluids comprise speciality chemicals, proprietary chemicals and commodity chemicals. The chemicals used for the formulation of drilling fluids are predominantly imported either directly, or indirectly through local agents or distributors, from countries such as the US, Europe, India, Singapore, China and Australia. Whilst there are no alternative suppliers for proprietary chemicals, speciality and commodity chemicals can be sourced from various local and overseas suppliers.

5.3.2 Overview of the manufacturing sector

Strengthening domestic demand, together with the recovery in exports, led to a turnaround in the manufacturing sector in 2002. Value added in the manufacturing sector expanded by 4.1% in 2002, from a contraction of 6.2% in 2001. Overall, manufacturing production expanded by 4.5% (2001: 6.6%), due to the stronger performance of the export-oriented industries, while the domestic oriented industries grew at a moderate pace. In line with the expansion in production, the overall manufacturing capacity utilisation rate increased to 83% in 2002 as compared with 80% in 2001, with both the export and domestic-oriented industries operating at higher capacities of 83% and 82% respectively. Overall, the stronger performance of the manufacturing sector in 2002 reflected mainly higher volume, while export prices continued to decline.

Value added growth in the manufacturing sector is expected to increase by 5% in 2003, on the assumption of a modest global economic outlook and moderate growth in the global electronics sector. The rising trend in intra-regional trade is expected to continue to augment demand for exports of manufactured goods. While Malaysian companies producing computer-related products, higher-end memory chips and chips for the wireless are optimistic on the outlook for 2003, others in the sector expect a moderate performance. The general consensus is that growth would improve in the second half of the year.

(Source: BNM Annual Report 2002)

The Group believes that the positive growth of the manufacturing sector expected by BNM bodes well for the SGB Group as such continued growth may help stimulate demand for its manufactured products, such as the precision engineering products. However, the expected growth may be affected by the prolonged uncertainty arising from the current geopolitical tensions in the Middle East.

5.3.3 Overview of the services sector

In 2002, the services sector continued to expand by 4.5%, with the intermediate services group comprising the transport, storage and communications, finance, insurance, real estate and business services continuing to grow at a faster pace than the final services group comprising the utilities, government services, wholesale and retail trade, hotels and restaurants and other services.

In line with strong growth in domestic consumption and tourism, value-added in the final services group, recorded a higher growth of 4.2% in 2002 (2001: 3.8%). The wholesale and retail trade, hotels and restaurants sub-sector remained resilient, registering a growth of 2.5% in 2002 (2001: 3%), reflecting higher consumer demand whilst the other services sector grew at a faster rate of 4.1% (2001: 2.9%), supported by expansion in the new growth areas such as private healthcare industries.

Growth in the services sector is expected to be sustained at 4.4% in 2003 (2002: 4.5%), reflecting continued expansion across all sub-sectors. Growth is expected to emanate from both the intermediate and final services sub-sectors. In particular, the transport, storage and communications sub-sector is expected to pick up in view of the expected expansion in trade, higher tourist arrivals, and growth in the telecommunications industry. Similarly, the wholesale and retail trade, hotels and restaurants sub-sector is expected to benefit from the increase in tourist spending and sustained domestic demand, while the utilities sub-sector is projected to strengthen in line with the improved performance of the manufacturing sector. Overall, growth in the services sector is expected to emanate from new niche areas as well as enhancement of traditional services such as financial services and transport.

(Source: BNM Annual Report 2002)

Whilst the Group believes that the continued expansion in tourism and tourism-related activities in 2003 coupled with the forecasted continued growth of the services sector, augurs well for the SGB Group's transient rental business, the Group has also noted that such continued growth may not be realised in view of the current global uncertainty.

5.3.4 Overview of the infrastructure and utilities industry

Following the fiscal stimulus and in tandem with the Eighth Plan, priority will be given towards improvement to quality of life. The supporting role of infrastructure and utilities to facilitate the growth of other sectors, in particular the distribution of goods and services is also vital to ensure the attainment of the Eighth Plan's objective of growth with resilience. The Eighth Plan further states that a total of RM27 billion will be allocated by the government to further improve the transport network as well as the availability and reliability of public utilities.

(Source: Eighth Malaysia Plan – 2001-2005)

The Group believes that the SGB Group's involvement in the manufacturing of truck-mounted equipment catering, amongst others, to the environmental needs and public maintenance facilities, may benefit from the Government's continued emphasis in achieving better quality of life for the country.

5.3.5 Overview of the tourism industry

The tourism sector will assume an even greater role in stimulating the growth of the economy during the Eighth Plan. Tourists arrival are expected to grow at an average rate of 6.9% per annum to reach 14.3 million tourists by year 2005 while tourism receipts are targeted to grow at an average annual rate of 9.5% to achieve RM29.5 billion by year 2005. With the continuous improvement in tourism products and services, marketing and promotion, infrastructure and utilities as well as institutional and regulatory framework, Malaysia is well placed to reap the gains of the tourism industry.

(Source: Eighth Malaysia Plan – 2001-2005)

In 2002, the number of tourist arrivals increased by 4% to 13.3 million from the 12.8 million recorded in 2001. As a result, higher net inflows for travel and education helped reduce the services deficit in the balance of payments. The encouraging performance in the tourism sector reflected the success of the sustained promotional efforts to diversify into new markets, especially the Middle East and regional countries.

BNM has also reported that the private healthcare industry has undergone a strategic change, with its focus now on health tourism. Towards this end, a National Committee for the Promotion of Health Tourism was set up to spearhead the growth of this industry. To date, there are 33 participating private hospitals catering to patients from Brunei Darussalam, Indonesia, Vietnam, Singapore, Bangladesh and Saudi Arabia.

(Source: BNM Annual Report 2002)

As the SGB Group is also involved in the transient rental business, the Group believes that the increasing levels of tourist arrivals could lead to increased demands for transient car rentals as the main market for the transient car rental depends very much on the number of tourist arrivals. However, the positive trend of the tourists arrivals may be affected by the recent increase in health risk affecting the region.

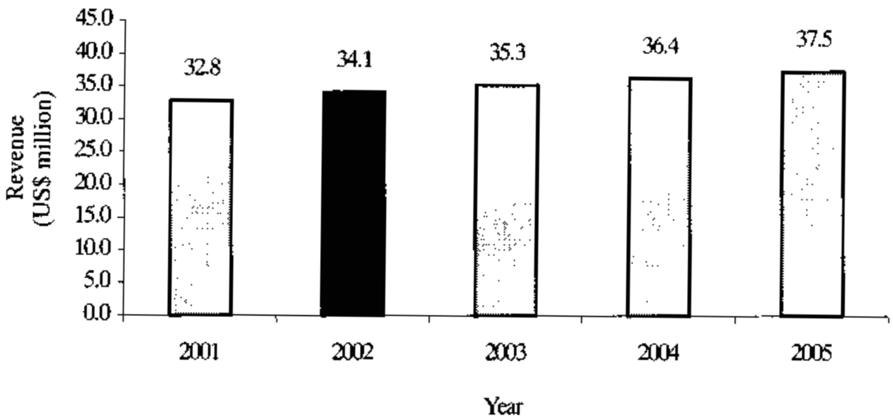
5.4 PROSPECTS OF THE SGB GROUP

5.4.1 Prospects of the oil and gas division

Demand for oil field chemicals such as drilling fluids is expected to increase, driven by fundamentals such as rising demand for energy and tight supply. At the end of 2001, Petronas Carigali began production from its Angsi field in the South China Sea off Malaysia. In addition, the Organisation of the Petroleum Exporting Countries (OPEC) is also keeping global oil prices in the mid-USD20 per barrel range, giving oil companies incentives for more exploration and drilling, which is expected to boost demand for drilling fluids around the world and in Malaysia.

The Malaysian market for drilling fluids was valued at approximately USD32.8 million in 2001. In 2002, the drilling fluids market is expected to rise to approximately USD34.1 million, and by 2005, it is expected to reach approximately USD37.5 million. The compounded annual growth rate for the drilling fluids market is expected to be approximately 3.2% over the said period.

Total Drilling Fluids Market: Revenue Forecasts (Malaysia), 2001-2005



Nonetheless, growth of the drilling fluids market may decline in the long run as oil reserves in Malaysia diminish but that is not expected to occur for another decade or two. Oil production in Malaysia has been declining slightly since its peak in 1996. Drilling fluids companies in Malaysia are beginning to look to diversify into other areas of business to address the challenge of a small and shrinking end user base. However, the situation can improve should exploration work in Malaysia lead to new oil field discoveries in Malaysia. For example, Shell plans to invest RM1 billion in offshore oil and gas exploration and production in 2002. Nonetheless, in order to remain competitive and prepare themselves for many different scenarios, KMC has begun to expand and serve clients in Indonesia, and although KMC does not have direct presence as yet in the Indonesian market, the company is looking to diversify its coverage. KMC is currently supplying intermediate chemicals for the production of drilling fluids to the Indonesian market and is seeking opportunities to supply to the overseas market.

In the meantime, PETRONAS has embarked on an international exploration and production strategy. Malaysian drilling fluids companies are therefore able to gain from PETRONAS' venture abroad if they are able to obtain global mud engineering service contracts with PETRONAS. PETRONAS' global expansion strategy has led it to hold stakes in the oil and gas industry of over 22 countries around the world. While Malaysia's market for drilling fluids may decline if there are no discoveries, long term global partnerships to supply PETRONAS' world-wide operations may be a lucrative endeavour for drilling fluids companies in Malaysia.

(Source: Independent Market Research Report by Frost & Sullivan dated 18 November 2002)

To this effect, KMC has already registered its interest with Petronas Carigali to participate in its international drilling operations in an effort to sustain and develop KMC's drilling fluids and mud engineering services over the longer term. Given its proven track record, high local participation and KMC being registered as a PETRONAS licensee, the Board of Directors of SGB is of the view that KMC's bid would be positively viewed.

5.4.2 Prospects of the transportation engineering division

The prospects of the transportation engineering division are closely linked to the development of the economic growth of the Malaysian economy. Therefore, the improvement in economic growth which spurs the construction and manufacturing sectors in Malaysia, would drive demand for services in the transportation industry sector. In this respect, the RM3 billion pre-emptive measures announced by the Government in March 2001 and the RM4.3 billion package in September 2001 is expected to filter through into 2002 to contribute positively towards further growth in the domestic sector, which is expected to have knock-on effects on the transportation related industries. Based on the BNM Annual Report 2002, the manufacturing sector is expected to register a positive growth of 5% in 2003. In addition, the Eighth Malaysia Plan 2001-2005 has allocated further expenditure for the improvement in transportation network and infrastructure development, which is expected to generate additional demand for transport vehicles.

The prospects of the transportation engineering division is to a certain extent also dependent upon the development of the transportation hardware requirements in the South East Asian ("SEA") region, particularly for its airport ground support equipment. Arising from the September 11 terrorist attack on the World Trade Center in New York, the demand for such airport ground support equipment has slowed. However, the Group believes that orders for these products are expected to improve towards the end of the year 2003 with the expected increase in confidence in the airline industry and growth of the new airports in the SEA region.

5.4.3 Prospects of the fleet management division

The developing trend for many businesses today is to outsource many of the non-core functions within the organisations. This is to enable the organisations to focus on their core competencies while at the same time enjoy guaranteed services, improved financial planning and reduced overheads and administration costs from third party professionals. The Company is of the view that there are opportunities for cross-selling its fleet management services to some of its existing corporate clients.

Greater emphasis has been given to tourism promotion and product development with the increment of the Tourism Fund from RM200 million to RM400 million and further, the Government has also approved a Tourism Infrastructure Fund totalling RM200 million. The Company believes that this will add impetus to the transient car rental business.

In addition, the Company has identified related services which are complementary and synergistic to the fleet management services such as the setting up of a training academy to develop and train professional drivers and chauffeurs.