(Prepared for inclusion in this Prospectus)

VITAL FACTOR CONSULTING
Creating Winning Business Solutions

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Dear Sirs

Assessment of the Manufacture of Process Equipment for the Oil, Gas and Petrochemical Industries

The following is an extract of the Independent Assessment of the Manufacture of Process Equipment for the Oil, Gas and Petrochemical Industries prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of KNM Group Berhad (KNM Group) in relation to its listing on the Second Board of the Kuala Lumpur Stock Exchange.

1. Background

- KNM Group's core business is in design and engineering, international procurement, manufacturing, shop fabrication, assembly, commissioning and maintenance of Process Equipment for the Oil, Gas and Petrochemical Industries.

- Some of KNM Group's major products include process vessels, storage facilities, Liquefied Petroleum Gas (LPG) mounded bullets, heat exchangers and air coolers, specialised piping system, process skid packages, flare stacks, specialised steel structural systems, revamped and maintenance of refineries and process plants.

2. Overview of the Process Equipment for the Oil, Gas and Petrochemical Industries

- The Manufacture of Process Equipment for Oil, Gas and Petrochemical Industries play a significant role in supporting the growth and development of Malaysia's Oil, Gas and Petrochemical Industries.

- Process Equipment is used in the production, refining and processing of crude oil, natural gas and other petrochemical products. Equipment such as reactors, distillation columns, separators, pressure vessels and heat exchangers are often regarded as the heart of the oil refinery or gas processing plants.

3. Government Legislation, Policies and Incentives

- Apart from the normal manufacturing licence, there are no material government laws, regulations and policies that may impede on the performance and growth of operators within the industry.

Government Incentives and Protection

- The Machinery and Equipment Industry Group, in which Process Equipment is a part of it, has been identified as one of the areas of priority for further development in the Second Industrial Master Plan 1996-2005. *(Source: Second Industrial Master Plan 1996 – 2005, Ministry of International Trade and Industry Malaysia).*

- The manufacture of mining or mineral processing machinery and equipment are regarded as promoted activities and are therefore eligible for Pioneer Status and Investment Tax Allowance under The Promotion of Investments Act 1986. *(Source: Malaysian Industrial Development Authority)*

- Heat treatment is classified under supporting products/services, which is undertaken by KNM Group in-house, is also a promoted activity under the Promotions of Investments Act *(Source: Malaysia Industry Development Authority).*

- Duty and tax exemptions on the import of raw materials for the manufacturing of Process Equipment, particularly for those that are not manufactured locally, are reviewed on a case-by-case basis. Thus far, the Malaysian Industrial Development Authority has approved KNM Group's request for duty and sales tax exemption for the import of its raw materials.

Implication

- The above demonstrate the priorities that Malaysian Government has placed on the Process Equipment Industry, and will ensure that the industry is nurtured and developed to its fullest potential.

4. Barriers to Entry

- Barriers to entry into the manufacture of Process Equipment for the Oil, Gas and Petrochemical Industries is **moderate to high** and will depend on the type of projects as follows:

  - Barriers to entry for small and medium-sized projects are **moderate** as indicated by the thirty to fifty manufacturers for this category of projects;

  - Barriers to entry for mega-sized projects are **high** as indicated by less than ten manufacturers for this category of projects;

  - Barriers to entry for projects requiring design and engineering capabilities are **high** as there are relatively few manufacturers with in-house design and engineering skills
    (Source: Primary Market Research undertaken by Vital Factor Consulting).

- As the design, engineering and manufacturing of Process Equipment for Oil, Gas and Petrochemical Industries is very specialised due to stringent safety and quality requirement, it requires significant input in terms of
  - design engineering skills
  - manufacturing and fabrication skills
  - welding skills
  - post welding heat treatment skills

- research and development
- technical knowledge.

These technical skill sets represent some barriers to entry.

- The design, engineering and manufacturing skills are more demanding in the manufacturing of larger Process Equipment, such as column, pressure vessels and LPG mounded bullets, as the complexity increases due to the thicker material used, larger welding surface area, different welding strength, and the sheer size of the equipment in terms of fabrication, handling, lifting and transportation.

- In the manufacture of certain large Process Equipment such as LPG mounded bullets or pressure vessels, steel with thickness of up to 100mm are used. Thus, the manufacturer must have the appropriate machine and skills to bend steel plates of such thickness. The facilities and skills required in the manufacturing of large Process Equipment form another barrier to entry into the industry.

- In addition to design, engineering and manufacturing skills, some customers may specify that the Process Equipment are to be manufactured to international recognised codes such as those set by the ASME, National Board or TUV of Germany. In this respect, only manufacturers that have received accreditation and approval from such bodies are authorised to use the internationally recognised stamps or mark on the equipment.

- The buyers of Process Equipment are essentially international oil companies and Engineering Procurement Construction Contractors (EPCC). As such, the manufacturers, in bidding for a job, must have excellent safety records and attained recognised quality management system such as ISO 9001 and ISO 9002.

- It is common in the industry for vendors and suppliers to be pre-qualified or pre-approved as authorised vendors or suppliers before they are allowed to bid for jobs.

- The above requirements and accreditations form some barriers to entry for new entrants.

5. Supply - Production

- As detailed data for the production of Process Equipment for the Oil, Gas and Petrochemical Industries is unavailable, the following general information is used to provide some indication of the production of the industry.

Manufacture of Structural Metal Products

- Between 1998 and 2002, the sales value of Structural Metal Products recorded an average annual growth rate of approximately 3.1%.

- However, in 2002, the sales value of Structural Metal Products decreased by 4.9% to approximately RM1.2 billion (based on 30 establishments with more than 30 employees).
  (Source: Monthly Manufacturing Statistics December 2002, Department of Statistics)

Manufacture of Boilers, Heaters, Sterilisers, Pressure Vessels

- Between 1997 and 2001, the sales value of Boilers, Heaters, Sterilisers and Pressure Vessels decreased at an average annual rate of 7.5%.

- For the first seven months of 2002, sales value of Boilers, Heaters, Sterilisers and Pressure Vessels increased by 7.9% compared to the same period in 2001.

- Between 1997 and 2001, the production quantity of Boilers, Heaters, Sterilisers and Pressure Vessels declined at average annual rate of 17.4%.

- However, for the first seven months of 2002, production quantity of Boilers, Heaters, Steriliser and Pressure Vessels almost doubled compared to the same period in 2001. *(Source: Department of Statistics)*

Manufacture of Storage Tanks

- Between 1997 and 2001, the sales value of Storage Tanks declined by an average annual rate of 1.9%.

- For the first seven months of 2002, the sales value of Storage Tanks decreased by approximately 27.0% compared to the same period for 2001.

- Between 1997 and 2001, the production quantity of Storage Tanks declined by average rate of 8.5% annually.

- However, for the first seven months of 2002, the production quantity of Storage Tanks registered a growth of 24.8% compared to the same period for 2001. *(Source: Department of Statistics)*

6. **Imports of Process Equipment**

- In 2002, import value of steam or other vapour generating boilers superheated water boilers, and auxiliary plant for use therewith, decreased by 79.1% amounting to RM158.8 million (There is a high fluctuation in import value from year to year for this item, where import values for 2000 and 2001 were RM120.0 million and RM761.4 million respectively) *(Source: Monthly External Trade Statistics December 2002, Department of Statistics).*

- Process Equipment, among others, is incorporated in various categories within the overall Machinery and Equipment Industry, and the import performances of these categories are as follows:

	Average Annual Growth Rate 1997 to 2001 *(%)*	**Growth Rate 2001** *(%)*	**Import Value 2001** *(RM billion)*
Power Generating Machinery and Equipment	10.3	25.9	6.8
Machinery and Equipment for Specific Industries	-5.9	-32.0	8.7
Metal Working Machinery and Equipment	-6.7	-15.2	2.8

- In 2001, the import value of containers for compressed or liquefied natural gas of iron/steel increased by 42.5% and amounted to approximately RM63.0 million.

- In 2001, import value of tanks, and similar containers of iron/steel of capacity exceeding 300 litres increased by 46.0% amounting to RM55.9 million.
(Source: Malaysia International Trade and Industry Report 2001, Ministry of International Trade and Industry Malaysia)

7. **Demand and Demand Dependencies**

- Demand for Process Equipment for the Oil, Gas and Petrochemical Industries will come from local and overseas customers.

Performance of Exports of Process Equipment

- Process Equipment, among others, is incorporated in various categories within the overall Machinery and Equipment Industry, and the export performances of these categories are as follows:

	Average Annual Growth Rate 1997 to 2001 *(%)*	**Growth Rate 2001** *(%)*	**Export Value 2001** *(RM billion)*
Power Generating Machinery and Equipment	11.6	-5.4	2.8
Machinery and Equipment for Specific Industries	15.9	7.3	2.7
Metal Working Machinery and Equipment	6.5	-8.9	0.4

- In 2001, the export value of containers for compressed or liquefied natural gas of iron/steel decreased by approximately 25.0% and amounted to approximately RM49.2 million.

- In 2001, export value of tanks, and similar containers of iron/steel of capacity exceeding 300 litres increased by 35.2% amounting to RM67.6 million.
(Source: Malaysia International Trade and Industry Report 2001, Ministry of International Trade and Industry Malaysia)

Performance of User Industries - Production

- The performance of user industries, that is, the Oil, Gas and Petrochemical and downstream Industries will also have a direct impact on the demand for Process Equipment. The following presents an assessment of the performance of the various user industries.

- In 2002, sales value of production of Crude Oil Refineries increased by 4.0% compared to 2001 *(Source: Monthly Manufacturing Statistics December 2002, Department of Statistics Malaysia)*.

- In 2002, production of natural gas registered an estimated growth of 6.3% to 4,864 million standard cubic feet per day (mmscfd) following increased domestic consumption of natural gas. *(Source: Economic Report 2002/2003, Ministry of Finance).*

- Between 1998 and 2002, production quantity of Liquefied Petroleum Gas grew at an average annual rate of 20.2%. In 2002, production increased by 27.6% to reach 2.9 million tonnes.

- Between 1998 and 2002, the sales value of crude oil refineries increased at an average annual rate of 29.7%. In 2002, sales value increased by 4.0% amounting to RM22.7 billion.

- Between 1998 and 2002, production volume of Gasoline grew at an average annual rate of 2.4%. In 2002, production decreased by 2.4% to 2.6 million tonnes.

- Between 1998 and 2002, production volume of Diesel/Gas Oil increased at an average annual rate of 12.2%.. In 2002, production declined by 1.8% amounting to approximately 9.5 million tonnes.

- Between 1998 and 2002, production quantity of Liquefied Petroleum Gas grew at an average annual rate of 20.2%. In 2002, production increased by 27.6% amounting to 2.9 million tonnes.

- Between 1998 and 2002, sales value of Industrial Gases grew at an average annual rate of 14.9%. In 2002, sales value registered a negative growth of approximately 6.7% amounting to RM13.0 billion.

- Between 1998 and 2002, sales value of Synthetic Resins, Plastic Materials and Man-made Fibre except Glass grew at an average annual rate of 13.2%. In 2002, sales value grew by 9.6% amounting to RM5.8 billion (based on 30 establishments with more than 30 employees).
  (Source: Monthly Manufacturing Statistics December 2002, Department of Statistics Malaysia)

Performance of User Industries - Exports

- In 2001, earnings from crude oil exports declined by 21.9% to RM11.1 billion. This is due to the lower export volume and sharp declined in Malaysia's crude oil price to a weighted average of US$24.88 per barrel from US$29.89 per barrel in 2000.

- However, for the eleven months of 2002, the gross export value of crude oil increased by 1.0% to reach RM10.5 billion compared to the same period in 2001.

- In 2001, the export volume of crude oil declined by 9.6% to reach 15.1 million tonnes. However, for the first eleven months of 2002, export volume of crude oil increased by 8.1% to reach 14.9 million tonnes compared to the same period in 2001.

- In 2001, export volume of LNG increased marginally by 0.4% to reach 15.5 million tonnes. With a decrease in price, earnings from liquefied natural gas (LNG) exports also declined by 0.7% to RM11.3 billion.

- In 2001, the export value of petroleum products increased by 3.4% amounting to RM8.4 billion. Between 1997 and 2001, export value of petroleum products increased at an average annual rate of 25.7%.
(Source: Monthly Statistical Bulletin December 2002, Bank Negara Malaysia)

Implications

- The overall strong performance of user industries in Oil, Gas and Petrochemicals, as well as downstream industries, will continue to sustain and provide growth for operators within the Process Equipment for the Oil, Gas and Petrochemical Industries.

8. Production Dependencies

- The major raw materials required for the manufacture of process equipment include the following:
  - hot rolled steel plates
  - steel and iron materials
  - dish head
  - paints and coatings
  - pipes and fittings
  - tube bundles.

- Other minor raw materials include:
  - welding materials (electrodes, wire and flux)
  - tube sheets
  - studs, bolts, nuts and washers
  - electrical and wiring
  - electrical heating bundles
  - insulation materials
  - nozzles and flanges.

- Within KNM Group, steel plates and other iron and steel materials accounted for approximately 60% of total raw materials used in the manufacturing of process equipment *(Source: KNM Group)*

- Within KNM Group, imports account for approximately 80% of the total raw materials used for the manufacturing of process equipment *(Source: KNM Group)*.

- Some of the main reasons for using imported raw materials are as follows:

  - Operators including KNM Group are sometimes required by the customers to source from approved manufacturers which are overseas;

  - Customers' specified grades of materials are not locally manufactured.

- Although some of the raw materials may be available locally, these are mainly for general industrial use and are not suited for specialised applications in the manufacturing of Process Equipment for the Oil, Gas and Petrochemical Industries.

- Under these circumstances, the Malaysian Industrial Development Authority will review each case and provide duty and tax exemptions on the import of raw materials for the manufacturing of Process Equipment. Thus far, the Malaysian Industrial Development Authority has approved KNM Group's request for duty and sales tax exemption for the import of its raw materials.

Supply of Hot-Rolled Steel Plates

- Currently only Jikang Dimensi Sdn Bhd manufactures steel plates and in 2001, it produced 11,000 tonnes of steel plates.
  (Source: Status and Outlook of the Malaysian Iron and Steel Industry 2001, Malaysian Iron and Steel Industry Federation)

- Between 1997 and 2001, the import value of hot-rolled steel plate (flat-rolled products of iron or non-alloy steel, of width of 600mm or more, hot-rolled, not clad, plated or coated, not in coils, of a thickness exceeding 10mm) decreased at an average annual rate of 15.9%. In 2001, import value declined by 11.2% amounted to RM154.7 million.

- Between 1997 and 2001, import volume of hot rolled steel plate (flat-rolled products of iron or non-alloy steel, of width of 600mm or more, hot-rolled, not clad, plated or coated, not in coils of a thickness exceeding 10mm) declined at an average annual rate of 18.7%. In 2001, the import volume declined by 5.6% to reach 143,855 tonnes.

- In 2001, the top four countries of import representing 72% of total imports under this type of category were:
  - Ukraine
  - Japan
  - India
  - United States of America.

  (Source: Department of Statistics)

Supply of Other Iron and Steel Material

- Other Iron and Steel Material include materials such as angles, beams, channels, round bars, flat bars, wires and wire mesh. However angles and beams would represent the majority of the iron and steel materials used in the manufacturing of process equipment.
- A high proportion of iron and steel materials still have to be imported, particularly the higher grade materials as these are not available locally.

- There are currently 51 producers of bars/wire rods/sections, and 40 producers of wire mesh in Malaysia *(Source: Industry Brief on Iron and Steel Industry, Malaysian Industrial Development Authority, February 2001)*.

- According to the Malaysian Iron and Steel Industry Federation, the production of bars is especially well catered for in Malaysia. The major producers of bars and wire rods in Malaysia are Perwaja Steel, Amsteel Corporation, Southern Steel, Malayawata, Antara Steel and Malaysian Steel Works. The numerous producers of wire and wire products are mostly small-scale producers *(Source: Report on Status and Outlook of the Iron and Steel Industry 2001, Malaysian Iron and Steel Industry Federation)*.

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Supply of Tubes and Tube Sheets

- Tubes and tube sheets are part of the components of heat exchangers, one of the process equipment manufactured. These are 100% imported because specialised grade of tubes and tube sheets are not produced in Malaysia. *(Source: Report on Status and Outlook of the Malaysian Iron and Steel Industry 2001, Malaysian Iron and Steel Industry Federation).*

Supply of Dish Head

- Dish heads are parts of a pressure vessel that are used to close off the ends of the vessel shell. As all the raw materials for the dish head have to be compatible and equivalent to the rest of the pressure vessel, which are formed using hot-rolled steel plates, this material is predominantly imported.

9. Competitive Nature of the Industry

- All manufacturers of Process Equipment operate under **normal** competitive conditions.
- Competition comes in 2 forms:
  - Local production
  - Imports.
- There is no undue monopolistic pressure either from the sourcing of raw materials or in the sales of products.
- As with most free enterprise environments, competition is based on a number of factors, including:
  - cost
  - compliance to technical specifications
  - quality
  - service.

Competitive Intensity

- Competitive intensity amongst the manufacturers of Process Equipment for the Oil, Gas and Petrochemical Industries is **low to moderate** and will depend on the types of projects as follows:

  - Competitive intensity for small and medium-sized projects are **moderate** as there are between thirty to fifty manufacturers for this category of projects;

  - Competitive intensity for mega-sized projects are **low** as there are less than ten manufacturers for this category of projects;

  - Competitive intensity for projects requiring design and engineering capabilities are **low** as there are relatively few manufacturers with in-house design and engineering skills.
    (Source: Primary Market Research undertaken by Vital Factor Consulting)

- Competitive intensity is mainly predicated by the barriers to entry, which differs across different types of projects. These barriers include, among others, the following:
  - Availability of technical skill sets and competency;

- Ability to meet the requirements for accreditation to various international bodies, and compliance to various manufacturing codes;
- Availability of machines, facilities and skilled operators, especially for mega-sized projects;
- Satisfied pre-qualification by customers;
- Preference for local manufacturers.

10. Key Players in the Industry

- Some of the **major local manufacturers** are as follows:
  - KNM Process System Sdn Bhd (formerly known as KNM Steel Sdn Bhd)
  - Dialog Group Berhad
  - Tepat Teknik Sdn Bhd
  - Petra Perdana Berhad
  - Amalgamated Metal Corporation Sdn Bhd
  - CN Asia Corporation Berhad
  - Torsco Berhad
  - CBI (M) Sdn Bhd
  - Enco Systems Sdn Bhd
  - Ikatan Engineering Sdn Bhd
  - Kejuruteraan QKS Sdn Bhd
  - MKE Engineering Sdn Bhd (formerly known as Mechmar Keppel Engineering Sdn Bhd)
  - Malaysia Shipyard & Engineering Sdn Bhd.

- It should be noted that some of the local key manufacturers mentioned also undertake other activities outside of the manufacturing of Process Equipment for the Oil, Gas and Petrochemical Industries.

- Some of the **foreign manufacturers** operating outside of Malaysia include the following:
  - Hyundai Heavy Industries Co. Ltd, South Korea
  - Sumitomo Heavy Industries Ltd, Japan
  - Ishikawajima Harima Heavy Industries Co. Ltd, Japan
  - Kvaerner Process System Pty Ltd, Australia
  - Escher Holand BV, Netherlands
  - Mid-Continent Equipment Pte Ltd, Singapore
  - W.E. Smith Hudson Pty Ltd, Australia
  - SIF Group BV, Netherlands
  - Edmonton Exchanger Group, United States of America.

  (Source: Primary Market Research undertaken by Vital Factor Consulting)

11. Industry Outlook and Growth Forecast

- The outlook of the Process Equipment for Oil, Gas and Petrochemical Industries is **favourable.**

- The Industry is expected to grow at approximately **5% to 7% per annum** for the next five years.

- The forecast is based on the assumption of a stabilised world economy and Malaysian economy and it does not take into consideration the impending threat or outbreak of war.

- The current uncertainty in the United States and the world economy may impact on the growth of Process Equipment Industry in the short term, however it is expected that growth will revert to normal in the medium to long term.

- The outlook and growth forecast is based on the following observations and analysis of the Process Equipment Industry.

  - **5-year Growth Trends**

    . Between 1998 and 2002, sales value of the Manufacture of Structural Metal Products grew at an average annual rate of 3.1% amounting to approximately RM1.2 billion *(Source: Monthly Manufacturing Statistics December 2002, Department of Statistics);*

    . Between 1997 and 2001, the production quantity of Boilers, Heaters, Sterilisers and Pressure Vessels grew at an average annual rate of 7.5% amounting to approximately RM106.0 million *(Source: Department of Statistics).*

  - **Recent Growth Trends**

	Growth Rate for first Seven months in 2002 compared to same Period in 2001
Production quantity of Boilers, Heaters, Sterilisers and Pressure Vessels	123.4%
Sales value of Boilers, Heaters, Sterilisers and Pressure Vessels	7.6%
Production quantity of Storage Tank	24.8%
Sales value of Storage Tanks	-27.0%
Manufacture of Structural Metal Products	-4.9%

Source: Monthly Manufacturing Statistics December 2002, Department of Statistics

- The growth of the Industry is highly dependent on the performance of the Oil, Gas and Petrochemical Industries. Hence the outlook and growth forecast is also based on the following observations and analyses of the local Oil, Gas and Petrochemical Industries:

- **5-Year and Recent Growth Trends**

	Growth Rate 1998 to 2002	Growth Rate 2002	Amount In 2002
Sales value of Crude Oil Refineries	29.7%	4.0%	RM 22.7 billion
Production quantity of Gasoline	2.4%	-2.4%	2.6 million tonnes
Production quantity of LPG	20.2%	27.6%	2.9 million tonnes
Production quantity of Diesel Oil	12.2%	-1.8%	9.5 million tonne
Sales value of Industrial Gases	14.9%	-6.7%	RM13.0 billion
Sales value of Manufacture of Synthetic Resins, Plastic Materials and Man-made Fibre except Glass	13.2%	9.6%	RM5.8 billion*

**based on 30 establishments with more than 30 employees*
Source: Monthly Manufacturing Statistics December 2002, Department of Statistics

- Despite some decrease in 2002, the 5-year trend between 1998 and 2002 of the local production of the Oil, Gas and Petrochemical Industries showed strong growth.

• The growth of the Process Equipment Industry is also dependent on the export performance of the Oil, Gas and Petrochemical Industries.

- **5-Year Growth Trends**

	Growth Rate 1997 to 2001	Amount In 2002
Export value of Petroleum Products	25.7%	RM8.4 billion
Gross export value of Chemicals and Chemical Products	16.3%	RM14.9 billion
Gross export value of Crude Oil	12.0%	RM11.1 billion
Gross export value of Liquefied Natural Gas	15.0%	RM11.3 billion
Gross export of Crude Oil	-9.6%	15.1 million tonnes
Gross export volume of Liquefied Natural Gas	0.4%	15.5 million tonnes

Source: Monthly Statistical Bulletin December 2002, Bank Negara Malaysia

- Despite the local and global economic slowdown in 2001, the 5-year trend between 1997 and 2001 is generally positive.

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12. Threats and Risks Analysis

Overseas Competition and Implementation of Asean Free Trade Area (AFTA)

- The Industry faces competition from overseas, especially internationally recognised manufacturers of Process Equipment.

- Additionally, as AFTA becomes fully implemented from 2003, the import duties of Process Equipment will be reduced to between 0% and 5% for Asean (Association of South East Asian Nations) manufacturers that comply with local content requirements. The reduction of import duties with the implementation of AFTA would encourage imports from Asean countries, thus creating further competition.

Mitigating Factors

- Local players have some advantage over overseas players as they are familiar with the local environment and business culture. This is particular important because jobs undertaken require constant interaction with clients.

- Local players may be more price competitive due to the use of local workers and raw materials where available. Geographically, local players have the advantage of being able to mobilise staff, equipment and materials quickly and cheaply. Additionally, local production would minimise cost of transportation compared to process equipment manufactured overseas.

- In addition, Malaysia has been subjected to the Asean CEPT since its inception in 1995 and the rates are generally at 0% to 5% as follows.

Products	Import Duties *(%)*	ASEAN*CEPT *(%)*
Heat Exchanger Unit: Cooling Towers	25	0
Steam or Other Vapour Generating Boilers	10 – 20	5
Pressure Vessels^	30	5

** Common Effective Preferential Tariff*
^Pressure Vessels is categorised under 'Others' which includes machinery, plant or laboratory equipment, whether or not electrically heated, for the treatment of materials by a process involving a change of temperature.
Source: Malaysian Tariff 2001, Royal Customs and Excise

Thus, any further reduction with the introduction of AFTA would be minimal. However, any imports outside of the Asean countries would continue to attract import tax at the rate indicated above.

Implication

- KNM Group is well aware of the threats from other overseas suppliers. Due to KNM Group's designing and engineering skills, with the ability to offer quality products and services through research and development combined with competitive pricing have enabled KNM Group to win jobs from Petronas and other oil companies in an industry previously dominated by international manufacturers from Korea, Japan and Europe.

Global Oil Price Fluctuations

- Crude Oil and Gas is a commodity that is subjected to international long-term and spot prices. In addition, price and production pressures from cartels, for example Organisation of Petroleum Exporting Countries (OPEC) will have significant impact on the Oil and Gas Industries.

- Thus, an extended poor Oil and Gas prices may discourage exploration. Alternatively, an extended high Oil and Gas prices may reduce demand for Oil, Gas and Petrochemical products. These two situations have a direct impact on the demand for processing equipment.

Mitigating Factors

- Oil, Gas and Petrochemical products are essential raw materials for a whole host of applications ranging from transportation and energy requirements to consumer and industrial products.

- For the demand of Process Equipment to be affected, an extended period of abnormal price increases or decreases would have to take place.

- Even under an extended price increase or decrease, the impact would not be overly severe as many of the Oil, Gas and Petrochemical products are essential raw materials for a large variety of consumer and industrial manufactured goods.

- Under an extended price increase or decrease, many industries will be affected. As such, the manufacture of Process Equipment is likely to follow the overall economic trend and would not necessary be singled out to suffer the most impact.

Alternatives to Oil and Gas

- Oil and Gas are both non-renewable resources. They are also contributors to pollution and the cause of the 'greenhouse' effect especially in major cities in the world.

- As such, there are significant moves to find alternative supply of energy, especially those that are non-polluting and renewable. Some of these include:

- nuclear energy	- wind
- hydropower	- waves
- natural thermal energy	- solar

- The success of these alternative energies would reduce the demand for Oil and Gas. This will directly impact on the demand for Process Equipment in these industries.

Mitigating Factors

- The search and development of alternative energy sources has been going on for more than twenty years. To date, the use of Oil and Gas continues to dominate in all industries and our everyday lives.

- It is not foreseeable that Oil and Gas will be significantly replaced by alternative energy sources within the immediate and medium term.

- In addition, regardless of developments in alternative energy sources, industries today throughout the world have grown highly dependent on Petrochemical products.

Implications

- The high and continuing dependency of Oil, Gas and Petrochemical products locally and globally will continue to sustain and provide growth opportunities for manufacturers of Process Equipment focusing on these industries.

- Malaysia is a manufacturing-based economy. As such, the continuing use of Oil, Gas and Petrochemical products in the manufacturing sector will continue to sustain and provide growth opportunities for manufacturers of Process Equipment.

Exchange Rate Fluctuations

- The Industry is subjected to fluctuations in foreign exchange in terms of import of raw materials as well as undertaking business overseas.

Mitigating Factor

- The pegging of the Ringgit to the US Dollar has successfully stabilised the exchange rate. However, the situation may change.

Implication

- It is common within the industry for manufacturers to charge the total cost of raw materials directly to the customer. This is especially the case for KNM Group. As such, exposure to foreign exchange fluctuations is commonly borne by the customer prior to the acceptance of the order.

Fluctuations in the Prices of Raw Materials

- The Industry is subjected to fluctuations in prices of raw materials especially steel and this may have an impact on the profit margin of manufacturers. Hot-rolled steel plates accounts for approximately 40% of the total raw materials used in the manufacturing of Process Equipment for KNM Group. Prices of steel have been known to increase two to three times of its original price.

Mitigating Factor

- Any increases in the prices of raw materials including steel can be passed onto the customer. This is a normal practice within the industry. In such situations, quotations submitted are subjected to revisions if there are changes in the prices of raw materials.

Implication

- Manufacturers are therefore protected to a certain extent, from price increases in raw materials including steel. Thus far, KNM Group has experienced increases in steel prices but this has not impacted negatively on its business.

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13. DRIVERS OF GROWTH

- The main drivers of growth for the Manufacturing of Process Equipment for the Oil, Gas and Petrochemical Industries is depended on three categories of manufacturers and users:

  - Producers and manufacturers of Oil and Gas products;
  - Intermediate users of Oil and Gas products for the manufacture of Petrochemical and Industrial Gas products;
  - End-user of Oil, Gas and Petrochemical products including industrial and consumer end-users.

- The ultimate driver of growth is dependent on consumption or end-user demand for Oil, Gas and Petrochemical products. This is largely influenced by the following factors:

  Local Market

  - Increased demand for crude oil and natural gas driven by increased in transportation and energy requirements as a result of the improvement in the Malaysian economy;
  - Increased activities in the manufacturing sector driven by the strong growth in usage of petrochemical products including various types of plastic and plastic products, synthetic fibre, synthetic rubber products, industrial gases and organic chemicals.

  Overseas Markets

  - Increased in demand for crude oil and natural gas driven by improvement in the performances of global economies;
  - Increased in exports of Petrochemical products for the manufacturing sector;
  - Increased in export of manufactured products that use Petrochemical products.

  Local and Overseas Markets

  - Increase in the application of natural gas as it is regarded cleaner and 'greener' to the environment in light of the 'greenhouse effect'. This will augur well for Malaysia as its reserves of natural gas is expected to last for another 30 to 45 years;
  - Increase in consumer affluence that in turn increases economic activities including manufacturing, transportation and energy requirements.

- Drivers of growth will also be dependent on the continuing exploration and production activities of Oil and Gas companies to ensure future and long-term supply.

14. AREAS OF GROWTH AND OPPORTUNITIES

Vertical Integration

- The manufacture of Process Equipment in Malaysia is fairly developed especially in downstream activities. However, the upstream activities such as providing EPCC services and manufacturing of flat steel plates and parts for the Process Equipment are still underdeveloped.

- Most EPCC employed by Petronas and other oil companies are international EPCC companies.

- However, in terms of business practicality, a local Process Equipment manufacturer with design and engineering skills, for example KNM, may undertake joint-venture arrangements with international EPCC to provide EPCC services. It is highly unlikely for a local Process Equipment manufacturer to become an EPCC. This is because an EPCC must own proprietary processes to design the entire Oil, Gas or Petrochemical processing plant.

- Thus, the opportunity in vertical integration is in joint-venture arrangements with established and international EPCC.

Horizontal Diversification - Exotic Metals

- Opportunities in horizontal diversification mainly lie in the use of exotic metals.

- Exotic metals are critical for Process Equipment that operates under harsh environment. These environments may include the processing and transportation of corrosive gases and chemicals, and applications of very high or low temperatures.

- Opportunities exist for local manufacturers to incorporate exotic metals because, to date, there are hardly any local manufacturers that are able to use exotic metals.

Horizontal Diversification –Providing Outsourcing Services

- Skills and services developed within the Oil, Gas and Petrochemical Industries can be applied to other less stringent and demanding Process Equipment.

- These may include, among others, the following industries:
  - Pulp and Paper Mills;
  - Food and Beverages Processing;
  - Oil Palm Mills and Refineries.

- Services that Manufacturers of Process Equipment for the Oil, Gas and Petrochemical Industries may provide to other less demanding manufacturing industries include the following:
  - Systems Design and Engineering;
  - Time-of-Flight-Diffraction Non-Destructive Testing;
  - International Procurement.

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Creating Winning Business Solutions

15. Market Ranking

- Based on a production of 15,600 tonnes of steel used for the manufacture of Process Equipment in 2002, KNM Group ranked **first** in comparison to other local manufacturers of Process Equipment for the Oil, Gas and Petrochemical Industries in Malaysia.

- Based on a turnover of RM107.67 million in 2002, KNM Group ranked **fourth** compared to other local manufacturers of Process Equipment for the Oil, Gas and Petrochemical Industries in Malaysia.

- Companies selected for market ranking purposes do not exclusively manufacture Process Equipment for the Oil, Gas and Petrochemical Industries. Companies that were selected for comparison must at least undertake some manufacturing of Process Equipment for the Oil, Gas and Petrochemical Industries. In terms of ranking by tonnage, the majority of the productions are for Process Equipment. In terms of ranking by turnover, total turnover is used, which incorporates other activities that may not be related to Process Equipment for the Oil, Gas and Petrochemical Industries.

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Yours sincerely

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

(Prepared for inclusion in this Prospectus)

W. M. Malik & Kamaruzaman
CHARTERED SURVEYORS • VALUERS • PROPERTY MANAGERS • ESTATE AGENTS
3rd Floor, Wisma Yakin, Jalan Melayu, 50100 Kuala Lumpur, Malaysia.
Tel: 603-2698 5522 Fax: 603-2692 5202
Email: wmmkj@po.jaring.my
Reg No: V(2) 0001
RICS

Wan Malik Mohamed, FRICS, MIS(M)
Kamaruzaman Jamil, BSc. (Hons) (London), FRICS, FIS(M)
Liang Sang Chong, BSc, (Land Admin), FRICS, MIS(M)

(Valuation Certificate)

16 June 2003

The Board of Directors
KNM Group Berhad
15, Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

Dear Sirs

VALUATION OF LOT PT 523, HS(D) 30213 MUKIM OF TANJONG MINYAK, DISTRICT OF MELAKA TENGAH, MELAKA BELONGING TO KNM PROCESS SYSTEMS SDN BHD
(KNM's Steel Fabrication Plant in Bukit Rambai Industrial Estate Phase 4B, Melaka)

This letter is prepared for inclusion in the Prospectus to be dated [27 JUN 2003] in relation to the public issue of 6,680,000 new ordinary shares of RM1.00 each and the placement of 4,400,000 new ordinary shares of RM1.00 each at an issue price of RM1.48 per new ordinary share and listing on the Kuala Lumpur Stock Exchange.

We were instructed by KNM Process Systems Sdn Bhd to assess the unexpired 94 years leasehold interest in the above property and are pleased to submit herewith our opinion of the Market Value of the interest held therein for the purposes of submission to the Securities Commission Malaysia.

The valuation as contained in the valuation report bearing reference No. M 1/91-00 (SC) and dated 4 October 2000, has been prepared in accordance with the Guidelines on Asset Valuations for submission to the Securities Commission (1995) issued by the Securities Commission and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents Malaysia.

The valuation is on the basis of 'Market Value' as defined herein and adopts the Cost and Investment Methods of Valuation. No allowances have been made for taxation and for expenses which may arise on acquisition or realisation.

W. M. Malik & Kamaruzaman

CHARTERED SURVEYORS ● VALUERS ● PROPERTY MANAGERS ● ESTATE AGENTS

RICS

We inspected the property on 10 August 2000 but have not carried out structural surveys nor investigated ground conditions or tested any services. We have not inspected those parts of the property which are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the property or has since been incorporated and we are therefore unable to report that the property is free from risks in this respect. For the purpose of this valuation we have assumed that such investigation would not disclose the presence of any such material in any adverse conditions.

We have inspected the title deed as recorded at the Land Office but cannot accept responsibility for its legal validity or for any liabilities against the property which were unrecorded at the time of inspection. We have assumed that the property possesses a good and marketable title, free from any unusual or onerous restrictions, covenants or other encumbrances which would adversely affect the value.

We have been provided with information by the client pertaining to tenancies, planning and building approvals and other information regarding the property and have assumed that the information given is correct and that there are no undisclosed matters which would affect our valuation.

No account has been taken of any leases between inter-related companies, internal financing arrangements, mortgages, debentures or other charges.

We have included in our valuation, items of plant and machinery equipment which provide the services to the land and building and which the open market regards as an integral part of the premises.

The property consists of KNM's steel fabrication plant on Lot PT 523 in Bukit Rambai Industrial Estate Phase 4B, in the Mukim of Tanjong Minyak, District of Melaka Tengah, Melaka. The land area is 18,268 sq metres or 196,635 sq ft (approximately 4.514 acres). At the time of valuation, the fabrication plant was built in Phases beginning in 1992 consisting of the following:-.

Phase I (building plan approval on 24-8-1992 and issued with CFO on 26-7-1993)

- Fabrication Shop (Bay 1) & Machine Shop (Bay 2)
- Guard House
- Substation
- Office Cabins

Phase 2 (building plan approval on 27-2-1996, completed in 1997)

- Fabrication Shop (Bay 3)

Phase 3 (building plan approval on 19-5-1998, completed in 1999)

- Fabrication Shop (Bay 4)

Phase 4 (proposed, submitted for approval on 5-9-2000)

- Extension to Fabrication Shop (Bay 4)
- 2-storey Office within Machine Shop (Bay 2)
- Toilet Block for Office
- Toilet Block fir Factory

The proposed extension to Fabrication Shop (Bay 4) and the Toilet Block for Office were already built. The 2-storey office and the other toilet block were due to commence work in the near future. We have been recently informed that all the buildings are completed and two Certificates of Fitness for Occupation (CFO) have been issued by Majlis Perbandaran Melaka Bandaraya Bersejarah Nos. A 02884/03 and A 03085/03 dated 21.1.2003 and 24.1.2003 respectively. The total floor area of the buildings is about 87,461 sq. ft.

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

W. M. Malik & Kamaruzaman

CHARTERED SURVEYORS ● VALUERS ● PROPERTY MANAGERS ● ESTATE AGENTS

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Subject to the foregoing and free from all charges, borrowings, encumbrances and with vacant possession, we are of the opinion the Market Value of the unexpired 94 years leasehold interest in the property as at 4 October 2000 was as follows:-

Value Upon Full Completion and Issuance of Certificate of Fitness for Occupation	=	RM11,300,000.00

(Ringgit Malaysia Eleven Million & Three Hundred Thousand Only)

Value 'As Is'	=	RM10,750,000.00

(Ringgit Malaysia Ten Million Seven Hundred & Fifty Thousand Only)

A summary of the valuation is attached herewith as Schedule 'A'.

Yours faithfully
for and on behalf of
W. M. Malik & Kamaruzaman
Chartered Surveyors-Valuers

Kamaruzaman Jamil, B.Sc (Hons), FRICS, FIS(M), APEPS
Partner of the Firm
Registered Valuer V-272

12. VALUATION CERTIFICATE *(Cont'd)*

W. M. Malik & Kamaruzaman
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RICS

SCHEDULE 'A'

A Properties owner-occupied for the purposes of the business

Property	Registered Proprietor	Description of Existing Use	Tenure/ Age of Building	Total land / built-up Area	Market Value as at date of valuation RM	Valuation Method	Date of Valuation
Lot PT 523 (Plot 208) HS(D) 30213 Mukim Tanjong Minyak, District Melaka Tengah Melaka (KNM's steel fabrication plant in Bukit Rambai Industrial Estate Phase 4B, Melaka)	KNM Steel Construction Sdn Bhd	Steel fabrication plant manufacturing among others pressure vessels and metal structures. Main Fabrication Shops: Bay (1) 23,458 fs (2,179.32 sm) Bay (3) 23,458 fs (2,179.32 sm) Bay (4) 23,458 fs (2,179.32 sm) Machine Shop: (Bay 2) 13,115 fs (1,218.40 sm) Less: 2,018 fs (187.45 sm) 11,097 fs (1,030.95 sm) Toilet for Office 258 fs (24.00 sm) Substation 555 fs (51.56 sm) Guard House 97 fs (9.00 sm) Proposed: 2-storey Office 4,692 fs (435.86 sm) (within Machine Shop) Toilet for Factory 388 fs (36.00 sm)	Age 7 years 3 years 1 year 7 years 1 year 7 years 7 years Tenure 99 years leasehold interest expiring on 28-5-2094 (approx. 94 years unexpired term)	Registered Land Area: 18,268 sq m (196,635 sq ft or 4.514 acres) Total Floor Area of Buildings:- 87,461 sq ft (8,125.33 sm)	RM11,300,000.00 (subject to full completion and issuance of Certificate of Fitness for Occupation) RM10,750,000.00 (Value 'As Is')	Cost and Investment Methods	4.10.2000

W. M. Malik & Kamaruzaman
CHARTERED SURVEYORS • VALUERS • PROPERTY MANAGERS • ESTATE AGENTS
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Email: wmmkj@po.jaring.my
Reg No: V(2) 0001

RICS

Wan Malik Mohamed, FRICS, MIS(M)
Kamaruzaman Jamil, BSc. (Hons) (London), FRICS, FIS(M)
Liang Sang Chong, BSc, (Land Admin), FRICS, MIS(M)

(Valuation Certificate)

16 June 2003

The Board of Directors
KNM Group Berhad
15, Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

Dear Sirs

VALUATION OF LOT PT 7552, HS(D) 17934 MUKIM OF SUNGAI KARANG, DISTRICT OF KUANTAN, PAHANG DARUL MAKMUR BELONGING TO KNM PROCESS SYSTEMS SDN BHD
(KNM's Steel Fabrication Plant in Gebeng Industrial Estate Phase I, Gebeng)

This letter is prepared for inclusion in the Prospectus to be dated 27 JUN 2003] in relation to the public issue of 6,680,000 new ordinary shares of RM1.00 each and the placement of 4,400,000 new ordinary shares of RM1.00 each at an issue price of RM1.48 per new ordinary share and listing on the Kuala Lumpur Stock Exchange.

We were instructed by KNM Process Systems Sdn Bhd to assess the unexpired 64 years leasehold interest in the above property and are pleased to submit herewith our opinion of the Market Value of the interest held therein for the purposes of submission to the Securities Commission Malaysia.

The valuation as contained in the valuation report bearing reference No. C 4/00 (SC) and dated 4 October 2000, has been prepared in accordance with the Guidelines on Asset Valuations for submission to the Securities Commission (1995) issued by the Securities Commission and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents Malaysia.

The valuation is on the basis of 'Market Value' as defined herein and adopts the Cost and Investment Methods of Valuation. No allowances have been made for taxation and for expenses which may arise on acquisition or realisation.

BRANCHES
Petaling Jaya : No. 19, Jalan 227-A, 46100 Petaling Jaya. Tel: 603-7955 6454, 7958 8854 Fax: 603-7956 2049 Reg No. VE (2) 0062
Klang : 1st Floor, No. 32, Jalan Tengku Diauddin, 41000 Klang. Tel: 603-3372 1932, 3373 0698 Fax: 603-3372 5945 Reg. No: VE(2) 0062/1

W. M. Malik & Kamaruzaman
CHARTERED SURVEYORS ● VALUERS ● PROPERTY MANAGERS ● ESTATE AGENTS

RICS

We inspected the property on 10 August 2000 but have not carried out structural surveys nor investigated ground conditions or tested any services. We have not inspected those parts of the property which are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the property or has since been incorporated and we are therefore unable to report that the property is free from risks in this respect. For the purpose of this valuation we have assumed that such investigation would not disclose the presence of any such material in any adverse conditions.

We have inspected the title deed as recorded at the Land Office but cannot accept responsibility for its legal validity or for any liabilities against the property which were unrecorded at the time of inspection. We have assumed that the property possesses a good and marketable title, free from any unusual or onerous restrictions, covenants or other encumbrances which would adversely affect the value.

We have been provided with information by the client pertaining to tenancies, planning and building approvals and other information regarding the property and have assumed that the information given is correct and that there are no undisclosed matters which would affect our valuation.

No account has been taken of any leases between inter-related companies, internal financing arrangements, mortgages, debentures or other charges.

We have included in our valuation, items of plant and machinery equipment which provide the services to the land and building and which the open market regards as an integral part of the premises.

At the time of valuation, the property consists of KNM's steel fabrication plant on Lot PT 7552 within Gebeng Industrial Estate Phase I, Gebeng, in the Mukim of Sungai Karang, District of Kuantan, Pahang Darul Makmur. The land area is 36,420 sq metres or 392,021 sq ft (9 acres). The fabrication plant was partly completed and occupied. Construction work was still in progress. The buildings consist of the following:-

- Main Fabrication Shop (completed)
- Fabrication Shop (90% completed)
- Guard House (completed)
- Substation (completed)
- Store (95% completed)
- 3-storey Office (93% completed)
- Canteen Block (60% completed)

W. M. Malik & Kamaruzaman

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The total floor area is about 109,052 sq ft. We have been recently informed that all the buildings are completed and a Certificate of Fitness for Occupation (CFO) No. 02/20 dated 14 February 2002 has been issued by Majlis Perbandaran Kuantan.

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

Subject to the foregoing and free from all charges, borrowings, encumbrances and with vacant possession, we are of the opinion the Market Value of the unexpired 64 years leasehold interest in the property as at 4 October 2000 was as follows:-

Value Upon Full Completion and Issuance of Certificate of Fitness for Occupation	=	RM16,500,000.00

(Ringgit Malaysia Sixteen Million & Five Hundred Thousand Only)

Value 'As Is'	=	RM13,450,000.00

(Ringgit Malaysia Thirteen Million Four Hundred & Fifty Thousand Only)

A summary of the valuation is attached herewith as Schedule 'A'.

Yours faithfully
for and on behalf of
W. M. Malik & Kamaruzaman
Chartered Surveyors-Valuers

Kamaruzaman Jamil, B.Sc (Hons), FRICS, FIS(M), APEPS
Partner of the Firm
Registered Valuer V-272

12. VALUATION CERTIFICATE *(Cont'd)*

W. M. Malik & Kamaruzaman
CHARTERED SURVEYORS ● VALUERS ● PROPERTY MANAGERS ● ESTATE AGENTS

RICS

SCHEDULE 'A'

A Properties owner-occupied for the purposes of the business

Property	Registered Proprietor	Description of Existing Use	Tenure/ Age of Building	Total land / built-up Area	Market Value as at date of valuation RM	Valuation Method	Date of Valuation
Lot PT 7552 (Plots 105 & 106) HS(D) 17934 Mukim Sungai Karang, District Kuantan, Pahang Darul Makmur (KNM's steel fabrication plant within Gebeng Industrial Estate Phase I, Gebeng)	Perwira Awan Sdn Bhd	Steel fabrication plant partly completed and occupied. Construction work is still in progress. Main Fabrication Shop 51,667 sq ft (completed) (4,800 sm) 12,917 sq ft (Open gantry rails) (1,200 sm) Fabrication Shop 16,240 sq ft (1,509 sm) (90% completed) 3-storey Office 16,533 sq ft (1,536 sm) (93% completed) Store - 7,136 sq ft (663 sm) (95% completed) Substation - 1,163 sq ft (108 sm) (completed) Guard House - 97 sq ft (9 sm) (completed) Canteen Block - 3,299 sq ft (306 sm) (60% completed)	66 years leasehold interest expiring on 1-6-2064 (approx. 64 years unexpired term)	Registered Land Area: 36,420 sq m (392,021 sq ft or 9 acres) Total Floor Area of Buildings:- 109,052 sq ft (10,131 sm)	RM16,500,000.00 (subject to full completion and issuance of Certificate of Fitness for Occupation) RM13,450,000.00 (Value 'As Is')	Cost and Investment Methods	4.10.2000

13. DIRECTORS' REPORT

KNM GROUP BERHAD (521348-H)
Corporate Head Office
15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia.
Tel: (60 3)-8943 0788 Fax: (6 03)-8943 4781 Email: knm@knm-group.com Website: www.knm-group.com

Registered Office:

15, Jalan Dagang SB4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

Date: 16th June 2003

The Shareholders,
KNM Group Berhad

Dear Sir/Madam,

On behalf of the Directors of KNM Group Berhad ("KNM"), I report after due inquiry that during the period from 31 December 2002 (being the date to which the latest audited financial statements of KNM and its subsidiaries ("KNM Group") have been made up) to 16 June 2003 (being a date not earlier than fourteen days before the issue of this Prospectus):

(a) the business of KNM and its subsidiaries has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of KNM which have adversely affected the trading or the value of the assets of KNM or any of its subsidiaries;

(c) the current assets of KNM and its subsidiaries appear in the books at values which are believed to be realizable in the ordinary course of business;

(d) there are no contingent liabilities by reason of any guarantees or indemnities given by the KNM Group;

(e) there have been, since the last audited accounts of the KNM Group as at 31 December 2002, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any known borrowings; and

(f) save as disclosed in the Accountants' Report and the Proforma Consolidated Balance Sheet in this Prospectus, there have been no changes in published reserves nor any unusual factors affecting the profits of the KNM Group since the last audited financial statements of the KNM Group.

Yours faithfully
For and on behalf of the Board of Directors of
KNM GROUP BERHAD

Dato' Abdul Rani bin Mohd Razalli
Executive Chairman