

4. INFORMATION ON THE KNM GROUP (Cont'd)

4.5 Promoters

The details of the promoters of KNM and their shareholding after the Public Issue are as follows: -

Name	Nationality	No. of Ordinary Shares Held			
		Direct	%	Indirect	%
TKSB	Malaysia	4,247,091	9.65	-	-
IMSB	Malaysia	28,672,909	65.17	*4,247,091	9.65

* Deemed interested by virtue of IMSB's 19.47% direct interest in TKS B

4.6 Subsidiary And Associated Companies

The subsidiary companies of KNM, all of which are incorporated in Malaysia (with the exception of KNMSPEC which is incorporated in China) are as follows: -

Name	Date/ Place of Incorporation	Authorised Capital RM	Issued & Paid-Up Share Capital RM	Effective Equity Interest %	Principal Activities
Subsidiary companies					
KNMPS	28.06.1990 Malaysia	5,000,000	3,100,000	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries
KNMI	10.05.2002 Malaysia	1,000,000	500,002	100	Provision of management, technical advisory, licence and trademark services to international related companies and related international investment
Subsidiary of KNMPS					
KNMO	30.05.1994 Malaysia	100,000	100,000	100	Fabrication and maintenance of oil, gas and petrochemical process equipment, storage tanks, modular assemblies and structural assemblies for oil, gas and petrochemical industries
PASB	17.10.1992 Malaysia	25,000	100	100	Property investment

4. INFORMATION ON THE KNM GROUP (Cont'd)

Name	Date/ Place of Incorporation	Authorised Capital RM	Issued & Paid-Up Share Capital RM	Effective Equity Interest %	Principal Activities
DE	14.11.2000 Malaysia	100,000	2	100	Provision of project of project manpower, engineering, non-destructive testing and technical consultancy services
Subsidiary of KNMI KNMOC	21.01.2002 Malaysia	100,000	2 Ordinary Shares & 1,330 RPS*	100	Investment holding
Subsidiary of KNMOC KNMSPEC	14.06.2002 China	Registered Capital : USD3.1 million		100	Design, manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialized structural assemblies and module assemblies for the oil, gas and petrochemical industries within the market in China
Associate of KNMPS KNM-DP	22.01.1992 Malaysia	1,000,000	528,570	28	Fabrication and maintenance of process equipment, storage tanks, modular assemblies and steel structural components for oil, gas and petrochemical industries
KNM-DP HB	24.09.1994 Malaysia	500,000	200,000	49	Dormant (intended principal activity is property investment)
Subsidiary of KNM-DP KNM-DP HB	24.09.1994 Malaysia	500,000	200,000	51	Dormant (intended principal activity is property investment)

* Redeemable Preference Shares

4. INFORMATION ON THE KNM GROUP (Cont'd)

Further details of the subsidiaries of KNM are as follows:-

4.6.1 KNMPS

(i) History And Business

KNMPS was incorporated in Malaysia on 28 June 1990 as a private limited company under the Companies Act, 1965. KNMPS commenced its operation on 27 February 1991. The principal activity of KNMPS is in the design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.

KNMPS was co-founded by Dato' Abdul Rani Bin Mohd Razalli, a Bumiputra Entrepreneur on 28 June 1990 as a company specialised in design and manufacturing of process equipment, storage tanks and other facilities for the oil, gas and petrochemical industries, taking advantage of their robust growth in Malaysia. Over a period of twelve years, under the leadership of Dato' Abdul Rani Bin Mohd Razalli and assisted by co-founder Ir. Lee Swee Eng, a professional mechanical engineer and a team of experienced engineers, KNMPS has managed to penetrate into the oil, gas and petrochemical industries resulting in a steady growth into a leading position today in Malaysia and recognition worldwide.

In 1992, KNMPS set up its first manufacturing plant in Melaka at Lot 208 Bukit Rambai Industrial Estate Phase IV with a land area of 27,000 square metres and a covered area of 3,700 square metres. The plant was set up to provide production facilities for the process equipment, steel structural systems, piping systems of the oil, gas and petrochemical plants.

KNMPS has managed to increase customer confidence resulting in continuous increase and repeated orders from the same customers who are major oil, gas and petrochemical producers or operators and international engineering contractors over the last ten years.

KNMPS expanded its manufacturing plant from a covered area of 3,700 square metres to 5,900 square metres in 1994 and to 8,065 square metres in 1997 to cater for the continued growth in sales. KNMPS gained acceptance of its quality products and services in the oil, gas and petrochemical industries leading to its accreditation and approval by the ASME for U, U2 and S Stamps for manufacture pressured vessels and boilers and by ABS Quality Evaluations Incorporated of USA for ISO 9001 quality standard. In May 2000, it has further been accredited the AD-Merkblatt HP-O and TRD 201 certificates in conjunction with EN729-2 by TÜV Süddeutschland of Germany.

In 1993, KNMPS successfully completed 2 units of Polymerisation Reactors, a feat, the first of its kind achieved by a Malaysian company. In 1996, it scored a Malaysian Book of Record for successfully completing the largest shop fabricated pressure vessels for a LPG Terminal and Bottling Plant.

4. INFORMATION ON THE KNMPS GROUP (Cont'd)

In 1995, KNMPS secured its first export order to deliver eight units of gas ship tanks to a German client. The company's export market continued to grow with more orders from other countries such as Singapore, Brunei, Indonesia, Myanmar, China, Philippines, Pakistan, Sri Lanka, Kuwait, Qatar, Oman, Nigeria, New Caledonia, USA and Canada. The company is pre-qualified in Jordan and is registered as approved suppliers in Kuwait, Oman and Qatar and is very well placed for more export orders in the Middle East, USA and Canada. KNMPS has also made in routes to other countries in West Asia, Europe, Africa, Australia and Latin America.

KNMPS expanded its operations in 1998 with a second manufacturing plant in Kerteh Industrial Estate on a rented land with covered area of 7,029 square metres bring the total covered shop space of KNMPS to 15,094 square metres. With this expansion, KNMPS secured in 1997, a single largest order of pressure vessels for the Aromatic Plant with total tonnage exceeding 3,000 metric tonnes and was successfully executed and delivered in 1999.

However, the biggest feat of all was an order from MTBE Malaysia Sdn Bhd in 1998 for one of world's longest and heaviest columns ever built by a Malaysian company, the Propylene-Propane Splitter, a high technology based process vessel for the Propane Dehydrogenation Plant. Along with this order, KNMPS was also entrusted with all the major columns for the whole plant, making it a strategic partner in ensuring the success of the plant. KNMPS successfully executed the order and was given a special mentioned award by PETRONAS for the achievement which is another first in the Malaysia Book of Records. As a strategic move and also to reduce logistic cost, KNMPS also purchased a nine acres industrial land in Gebeng and built its third manufacturing plant in 1999. In 2001, KNMPS built a new plant in Bintulu to service the East Malaysia and Brunei region. The Kertih Plant was relocated to Gebeng, as part of the Gebeng Plant expansion in 2002.

Details of KNMPS's manufacturing plants are set out below:

Plants	Location	Total Area (m²)	Covered Area (m²)	Manufacturing Capacities (MT)
Melaka Plant	Melaka	29,385	9,000	6,000
Gebeng Plant	Kuantan, Pahang	36,420	13,500	9,000
Bintulu Plant	Sarawak	13,400	2,500	2,000
China Plant	Changshu, China	33,537	17,230*	11,500*
Total Area		112,742	42,230	28,500

* Estimated (upon completion)

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

4. INFORMATION ON THE KNM GROUP (Cont'd)

(ii) Share Capital

The present authorised share capital of KNMPS is RM5,000,000 divided into 5,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM3,100,000 comprising 3,100,000 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of KNMPS since its incorporation are as follows:

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
28.06.1990	2	1.00	Cash	2
12.03.1991	99,998	1.00	Cash	100,000
09.08.1991	400,000	1.00	Cash	500,000
25.08.1992	500,000	1.00	Cash	1,000,000
07.10.1993	1,100,000	1.00	Cash	2,100,000
01.12.1993	1,000,000	1.00	Cash	3,100,000

* On 27 June 2000, 1,115,300 ordinary shares of RM1.00 each representing approximately 36% equity interest in KNMPS was purchased by Inter Merger Sdn Bhd from Koninklijke Schelde Groep BV (Netherlands)

(iii) Subsidiary And Associated Companies

The subsidiary and associate companies of KNMPS are as follows:

Subsidiary Company	Date/Place of Incorporation	Authorised Capital RM	Issued & paid-up Share Capital RM	Effective Equity Interest (%)	Principal Activities
KNMO	30.05.1994 Malaysia	100,000	100,000	100	Fabrication and maintenance of oil, gas and petrochemical process equipment.
PASB	17.10.1992 Malaysia	25,000	100	100	Property investment
DE	14.11.2000 Malaysia	100,000	2	100	Provision of project of project manpower, engineering, non-destructive testing and technical consultancy services
Associate of KNMPS					
KNM-DP	22.01.1992 Malaysia	1,000,000	528,570	28	Fabrication and maintenance of process equipment, storage tanks, modular assemblies and steel structural components for oil, gas and petrochemical industries.
KNM-DP HB	24.09.1994 Malaysia	500,000	200,000	49	Dormant (intended principal activity is property investment)

4. INFORMATION ON THE KNM GROUP (Cont'd)

Subsidiary Company	Date/Place of Incorporation	Authorised Capital RM	Issued & paid-up Share Capital RM	Effective Equity Interest (%)	Principal Activities
Subsidiary of KNM-DP					
KNM-DP	24.09.1994	500,000	200,000	51	Dormant (intended principal activity is property investment)
HB	Malaysia				

4.6.2 KNMI

(i) History And Business

KNMI was incorporated in Malaysia on 10 May 2002 as a private limited company under the Companies Act 1965 and commenced operations on 5 July 2002. The principal activity of KNMI is in the provision of management and technical advisory services to international related companies and related international investments.

(ii) Share Capital

The present authorized share capital of KNMI is RM1,000,000 divided into 700,000 ordinary shares of RM1.00 each and 300,000 redeemable preference shares ("RPS") of RM1.00 each. The issued and paid-up share capital is RM500,002 ordinary shares of RM1.00.

The changes in the issued and paid-up share capital of KNMI since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
10.05.2002	2	1.00	Cash	2
05.07.2002	500,000	1.00	Cash	500,002

(iii) Subsidiary And Associated Companies

The subsidiary company of KNMI is as follows:-

Subsidiary Company	Date/Place of Incorporation	Authorised Capital RM	Issued & paid-up Share Capital RM	Effective Equity Interest (%)	Principal Activities
KNMOC	21.01.2002 Malaysia	100,000	- 2 ordinary shares of RM1.00 each - 1,330 RPS of RM1.00 each issued at a premium of RM999 per share	100	Investment holding

4. INFORMATION ON THE KNM GROUP (Cont'd)

4.6.3 KNMOC

(i) History And Business

KNMOC was incorporated in Malaysia on 21 January 2002 as a private limited company under the Companies Act 1965 and commenced operations on 5 July 2002. The principal activity of KNMOC is that of an investment holding company.

(ii) Share Capital

The present authorised share capital of KNMOC is RM100,000 divided into 20,000 ordinary shares of RM1.00 each and 80,000 RPS of RM1.00 each. The issued and paid up share capital is RM1,332 comprising 2 ordinary shares of RM1.00 each and 1,330 RPS of RM1.00 with a premium of RM999 each.

The changes in the issued and paid up share capital of KNMOC since its incorporation are as follows:

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
21.01.2002	2	1.00	Cash	2
05.07.2002	1,330 RPS	1.00 with premium of RM999	Cash	1,332

(iii) Subsidiary and Associated Companies

The subsidiary company of KNMOC is as follows:-

Subsidiary Company	Date/Place of Incorporation	Total Investment Value USD	Registered Capital USD	Effective Equity Interest (%)	Principal Activities
KNMSPEC	14.06.2002 China	6,200,000	3,100,000	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe system, storage tanks, specialized structural assemblies and module assemblies for the oil, gas and petrochemical industries within the market in China

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

4.6.4 KNMSPEC

(i) History And Business

KNMSPEC was incorporated in China on 4 June 2002 as a private limited company under the Laws of China and has commenced business. The principal activity of KNMSPEC is in design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries within the market in China. KNMSPEC is building a new manufacturing plant which will be completed by the 2nd quarter of 2003 and has secured orders worth RMB11.13 million.

(ii) Total Investment Value And Registered Capital

The total investment value intended for the company is USD6.2 million with a registered capital of USD3.1 million.

(iii) Subsidiary And Associated Companies

As at the date of this prospectus, the Company does not have any subsidiary nor associated companies.

Note:

In accordance with China law, KNMSPEC is a limited liability company and the amount of registered capital of KNMSPEC refers to the total amount of capital registered with the administrative authority for industry and commerce for the establishment of KNMSPEC, namely, the total amount of investment that KNMOC is obliged to contribute to KNMSPEC. The total investment value of KNMSPEC refers to the total amount of funds required to operate KNMSPEC, namely, the sum total of capital construction funds and the amount of working capital required in accordance with KNMSPEC's production scale. Therefore, the total investment value must be equal to or superior than the amount of registered capital.

4.6.5 PASB

(i) History And Business

PASB was incorporated in Malaysia on 17 October 1992 as a private limited company under the Companies Act, 1965 and commenced operations on 1 January 2000. The principal activity of PASB is in property investment.

(ii) Share Capital

The present authorised share capital of PASB is RM25,000 divided into 25,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM100 comprising 100 ordinary shares of RM1.00 each.

4. INFORMATION ON THE KNM GROUP (Cont'd)

The changes in the issued and paid-up share capital of PASB since its incorporation are as follows:

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
17.10.1992	2	1.00	Cash	2
3.03.1997	98	1.00	Cash	100

(iii) Subsidiary And Associated Companies

As at the date of this prospectus, the company does not have any subsidiary nor associated companies.

4.6.6 KNM-DP

(i) History And Business

KNM-DP, an associate company of KNMPS, was incorporated in Malaysia on 22 January 1992 as a private limited company under the Companies Act, 1965 and commenced operations in January 1992. The principal activity of KNM-DP is in the fabrication and maintenance of process equipment, storage tanks, modular assemblies and steel structural components for oil, gas and petrochemical industries.

(ii) Share Capital

The present authorised share capital of KNM-DP is RM1,000,000 divided into 1,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM528,570 comprising 528,570 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of KNM-DP since its incorporation are as follows:

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
22.01.1992	2	1.00	Cash	2
6.02.1992	99,998	1.00	Cash	100,000
28.02.1994	42,857	1.00	Cash	142,857
8.03.1994	385,713	1.00	Bonus issue by way of capitalisation of share premium accounts	528,570

4. INFORMATION ON THE KNM GROUP (Cont'd)

(iii) Substantial Shareholders

Shareholders	Nationality/ Place of Incorporation	No. of Ordinary Shares Held	%
Perbadanan Kemajuan Negeri Melaka	Malaysia	158,571	30.0
KNMPS	Malaysia	147,999	28.0
TKSB	Malaysia	74,000	14.0
Daya Venture Sdn Bhd	Malaysia	74,000	14.0
Panoramic Team Sdn Bhd	Malaysia	74,000	14.0

(iv) Subsidiary And Associated Companies

The subsidiary company of KNM-DP is as follows:-

Subsidiary Company	Date/Place of Incorporation	Authorised Capital RM	Paid-up Capital RM	Effective Equity Interest (%)	Principal Activities
KNM-DP HB	24.09.1994 Malaysia	500,000	200,000	51	Dormant (intended principal activity is property investment)

4.6.7 KNM-DP HB

(i) History And Business

KNM-DP HB was incorporated in Malaysia on 24 September 1994 as a private limited company under the Companies Act, 1965. The intended principal activity of KNM-DP HB is in property investment. KNM-DP HB has not commenced operations since the date of its incorporation.

(ii) Share Capital

The present authorised share capital of KNM-DP HB is RM500,000 divided into 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM200,000 comprising 200,000 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of KNM-DP HB since its incorporation are as follows:

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-Up Share Capital RM
24.09.1994	2	1.00	Cash	2
28.09.1994	199,998	1.00	Cash	200,000

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

(iii) Substantial Shareholders

Shareholders	Nationality/ Place of Incorporation	<-----Direct----->		<-----Indirect----->	
		No. of Ordinary Shares Held	%	No. of Ordinary Shares Held	%
KNMPS	Malaysia	98,000	49.0	102,000*	51.0
KNM-DP	Malaysia	102,000	51.0	-	-

* Deemed interested by virtue of the direct interest in KNM-DP

(iv) Subsidiary And Associated Companies

As at the date of this Prospectus, the company does not have any subsidiary or associate companies.

4.6.8 KNMO

(i) History And Business

KNMO was incorporated in Malaysia on 30 May 1994 as a private limited company under the Companies Act, 1965 and commenced operations on 1 June 1994. The principal activity of KNMO is in the fabrication and maintenance of oil, gas and petrochemical process equipment.

(ii) Share Capital

The present authorised share capital of KNMO is RM100,000 divided into 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each.

The issued and paid-up share capital of KNMO has not changed since its incorporation.

(iii) Subsidiary And Associated Companies

As at the date of this Prospectus, the company does not have any subsidiary nor associated companies.

4.6.9 DE

(i) History And Business

DE was incorporated in Malaysia on 14 November 2000 as a private limited company under the Companies Act, 1965 and commenced operations on 14 November 2000. The principal activity of DE is in the provision of project manpower, engineering, non-destructive testing and technical consultancy services.

(ii) Share Capital

The present authorised share capital of DE is RM100,000 divided into 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each.

The issued and paid-up share capital of DE has not changed since its incorporation.

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

(iii) Subsidiary And Associated Companies

As at the date of this Prospectus, the company does not have any subsidiary or associate companies.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

4. INFORMATION ON THE KNM GROUP (Cont'd)

4.7 Licences, Certificates Of Authorisation, Certificates Of Registration, Vendor Approvals And Memberships

4.7.1 Major Licences, Certificates Of Registration And Certificates Of Authorisation

Licence / Authority KNMPS	Date of Issue	Major Conditions	Status of Compliance
<p>1. Manufacturing Licence by MITI and MIDA</p> <p>(a) Manufacturing licence No. A 012075 to produce 'pressure & non-pressure vessels and other steel fabricated industrial plant components and structural steel products' as from 23 September 1999 at Lot 105 & 106, Gebeng Industrial Estate Phase 1, Mukim of Sungai Karang, 26080 Kuantan, Pahang Darul Makmur and letter from MIDA dated 20 May 2003;</p> <p>(b) Manufacturing licence No. A 010372 to produce 'pressure & non pressure vessels and other steel fabricated industrial plant components and structural steel products' as from 5 June 1996 at Lot 208, Bukit Rambai Industrial Estate, 75250 Melaka and letter from MIDA dated 20 May 2003; and</p> <p>(c) Manufacturing licence No. A 012759 to produce 'pressure & non-pressure' vessels and other steel fabricated industrial plant components and structural steel products' as from 17 January 2001 at Lot 130, Kidurong Industrial Area Bintulu, Sarawak and letter from MIDA dated 20 May 2003.</p>	<p>19.05.03</p> <p>19.05.03</p> <p>19.05.03</p>	<p>(a) At least 70% of the shares of the company shall be subscribed to and held by Malaysians and at least 51% of the shares shall be classified, and the company shall consult MITI before distribution of shares;</p> <p>(b) The shares held by shareholders who are not Malaysians shall not be sold without prior written approval of MITI;</p> <p>(c) The composition of the board of directors of the company shall, in general, reflect the equity structure of the company and MITI shall be informed of the appointment as well as any change in its board of directors;</p> <p>(d) The company should train Malaysian citizens so that the transfer of skill and technology is passed to all levels within the company.</p>	<p>Complied</p>

4. INFORMATION ON THE KNM GROUP (Cont'd)

Licence / Authority	Date of Issue	Major Conditions	Status of Compliance
<p>2. Petroliam Nasional Berhad ("PETRONAS") Licence No. L-200140-X under Regulation 3 of the Petroleum Regulations 1974 to provide equipment/services for Carigali companies and oil/gas producers in Malaysia from 16 December 2002 to 15 December 2004.</p>	13.11.02	<p>(a) The company is required to register and obtain the necessary licence, permit or approval from the relevant authorities prior to providing the services or products relating to the company's business operations or activities. These services or supply of products must also be in accordance with the relevant rules.</p> <p>(b) This licence will be cancelled if it is discovered that the company is in any stage of liquidation, winding-up or dissolution.</p> <p>(c) The company is required to inform PETRONAS of any changes in the company such as changes in the shareholding structure, board of directors or management team within 14 days. Failure to do so will cause the company's licence to be cancelled.</p> <p>(d) The company shall not allow any other company to become its principle, agent, sub-contractor or otherwise provide any services or supply any utilities or equipment on its behalf without the prior written approval of PETRONAS.</p> <p>(e) This licence is non-transferable.</p>	Complied
<p>3. Certificate of Registration No. 1960117-WP000178 under Part VI of the Malaysian Construction Industry Development Board Act, 1994 by the Construction Industry Development Board Malaysia ("CIDB") as a registered contractor for mechanical and electrical, fabrication and special treatment, special refineries and general building and maintenance and civil engineering general from 28 August 2001 to 2 August 2003.</p>	29.08.01 /updated 21.03.03	<p>(a) Registration of the contractor shall be cancelled, suspended or revoked if, among others, the contractor is adjudicated a bankrupt and a winding up petition has been presented against the contractor;</p> <p>(b) This certificate is non-transferable</p>	Complied
<p>4. Certificates of Registration from:</p> <p>(a) Ministry of Finance, Malaysia (MOF) in supplying products / services under the approved heads of manufacture: cargo tanks, storage tanks (LPG), stabilizer columns, heat exchangers, container / tanks, repair of 'buft' fuel tanks and water pump / pipe and its components from 28 May 2002 to 27 May 2005.</p>	09.05.02	<p>(a) To inform MOF of any change to information disclosed via "online" within 10 days of the date of changes.</p> <p>(b) Company to ensure that categories not overlapping with the category approved in any other company that have the same shareholder or Board of Directors and Management.</p>	Complied

4. INFORMATION ON THE KNM GROUP (Cont'd)

Licence / Authority	Date of Issue	Major Conditions	Status of Compliance
(b) Ministry of Entrepreneurial Development (PKK) as a Class A, Heading III, Sub-heading 4,5,6,9,11,14,17(a), 17(b), 17(h), 17(i) and 17(l) contractor from 30 September 2002 to 29 September 2004	03.09.02	(a) Any change to the company information must be disclosed to PKK within 21 days from the date of change. (b) PKK is entitled to terminate/suspend this registration without notice if the information furnished is wrong or has failed to submit information requested. (c) This registration will be cancelled if: i) Any shareholder of the company owns more than 5% or RM50,000 (whichever is lower) in any other company registered with PKK in the same category. ii) Any management or technically qualified staff is involved actively in any other company registered with PKK for the same category.	
5. Certificates of Authorisation from: (a) The National Board of Boiler and Pressure Vessel Inspectors for the use of the "NB" mark and register boilers, pressure vessels or other pressure retaining items manufactured in accordance with the U, U2 & S ASME Stamps with the National Board until 21 January 2006 (Melaka)	21.01.03	No conditions attached	Not applicable
The National Board of Boiler and Pressure Vessel Inspectors for the use of the "NB" mark and register boilers, pressure vessels or other pressure retaining items manufactured in accordance with the U, U2 and S ASME Stamps with National Board until 21 January 2006 (Gebeng, Kuantan)	21.01.03		
The National Board of Boiler and Pressure Vessel Inspectors for the use of "R" symbol for repairs and/or alterations at Lot 105 – Lot 106 Gebeng Industrial Estate, 26080 Kuantan, Pahang and extended for field repairs and/or alterations controlled by this location from 12 December 2002 to 21 January 2006.	12.12.02		

4. INFORMATION ON THE KNM GROUP (Cont'd)

Licence / Authority	Date of Issue	Major Conditions	Status of Compliance
<p>(b) The American Society of Mechanical Engineers (ASME) authorises the use of U, U2 and S symbols stamps to manufacture pressure vessels and to manufacture and assembly of power boilers at Lot 208, Bukit Rambai Industrial Estate, 75250 Melaka and other field sites controlled by the foregoing location until 21 January 2006.</p>	04.02.00	No conditions attached	
<p>The ASME authorises the use of U, U2 and S symbol stamps to manufacture pressure vessels and to manufacture and assembly of power boilers at Lot 105 - 106, Gebeng Industrial Estate, 26080 Kuantan, Pahang and other field sites controlled by the foregoing location until 21 January 2006.</p>	04.02.00		
<p>The ASME authorises the use of U, U2 and S symbol stamps to manufacture pressure vessels and to manufacture and assembly of power boilers at Lots 124 and 128 Kidurong Industrial Area, 91000 Binnulu, Sarawak and other field sites controlled by the foregoing location until 14 December 2004.</p>	14.12.01		
<p>(c) TUV Sudddeutschland (TUV) certifying that KNMPS's Gebeng production place has been audited and approved as a manufacturer according to AD-Merkblatt HPO and TRD 201 in conjunction with EN 729-2 and that KNMPS has fulfilled the comprehensive quality requirements according to EN 729-2 until March 2004.</p>	21.03.00 and 01.05.00	<p>(a) Should one of the named welding and testing supervisors leave the Company or welding and test procedures or important parts of equipment required for these procedures be changed or any of the welding related quality assurance measured be modified, it must be reported beforehand to TUV. If necessary TUV will initiate a renewal inspection at the Company.</p> <p>(b) This certificate shall become invalid if the welding supervisor named therein leaves the Company.</p>	

4. INFORMATION ON THE KNM GROUP (Cont'd)

Licence / Authority	Date of Issue	Major Conditions	Status of Compliance
6. Works Contractor registered with Tenaga Nasional under the Categories Class general A, Heading III and sub-heading 4,5,6,9,11,14,17a,17b,17h,17j & 17i until 29 September 2004.	09.10.02	No conditions attached	Not applicable
7. Safety Quality Licence for boiler and pressure vessel by the State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine. Expires on 30 April 2006.	30.04.02	No conditions attached	Not applicable
8. (a) Registered as manufactures of non-fired pressure vessel (Pembina Pengandung Tekanan Tak Berapi) with Jabatan Keselamatan dan Kesihatan Pekerjaan Malaysia under registration no. BT 21/411 at Lot 124 and 128, Block 20, Kemena Land District, Kidurong Industrial Estate, Bintulu Sarawak. Valid for 2 years; (b) Registered as manufacturer of non-fired pressure vessel (Pembina Pengandung Tekanan Tak Berapi) with Jabatan Keselamatan dan Kesihatan Pekerjaan Malaysia at Lot 105 & 106, Kawasan Industri Gebeng 26080 Kuantan Pahang. Valid for 2 years; (c) Registered as manufacture of non-fired pressure vessel (Pembina Pengandung Tekanan Tak Berapi) with Jabatan Keselamatan dan Kesihatan Pekerjaan Malaysia at Lot 208, Bukit Rambai Industrial Estate 75250 Melaka. Valid for 2 years.	27.05.03 08.11.02 16.01.02	a) The department has to be informed of any changes/addition to the existing officer, machineries and premises. b) To obtain prior approval on design from the department before commencing manufacturing c) All procedures relating to manufacture of non-fired pressure vessels must be in compliance with the Quality Control Manual and any change from the manual must receive the approval of the Department. d) All welding works must be carried out by an approved welder in accordance with Welding Procedure Specification. All welding to be conducted under supervision and all records to be kept properly. e) To comply with the provisions of Factory & Machineries Act and Safety & Health of Workers Act and the Rules thereto.	Complied

4. INFORMATION ON THE KNM GROUP (Cont'd)

Licence / Authority KNMO	Date of Issue	Major Conditions	Status of Compliance
<p>1. Manufacturing Licence under the Industrial Co-Ordination Act, 1975 by MITI and MIDA</p> <p>Licence A011718 to produce 'pressure & non pressure vessels and other steel fabricated industrial plant components and structural steel products' as from 12 November 1998 at Lot PT 1511, Kawasan Permunt, Kertih, 24700 Kemaman, Terengganu Darul Iman</p>	10.03.98	<p>(a) At least 70% of the shares of the company shall be subscribed to and held by Malaysians and at least 30% of the shares shall be classified, and the company shall consult MITI before distribution of shares;</p> <p>(b) The shares held by shareholders who are not Malaysians shall not be sold without the prior written approval of MITI;</p> <p>(c) If the company proposes to use any used machinery, the prior written approval of MITI shall be obtained and a valuation shall be carried out by an independent valuer acceptable to MITI. The prior consent of MITI shall also be obtained before any modification, addition or reduction in the machinery is proposed where there may be substantial implication on power usage and/or output;</p> <p>(d) The company shall not enter into any joint venture agreement, technical assistance agreement, licence agreement, trademark and patents agreement, turnkey contracts, management agreements without the prior written approval from the MITI;</p>	Complied
<p>2. Certificate of registration No. 1970104-WP020751 under Part VI of the Malaysian Construction Industry Development Board Act, 1994 by CIDB as a registered contractor for fabrication and special treatment and mechanical tools in the category of not more than RM 1,000,000. Valid from 3 January 2001 to 2 January 2004.</p>	04.12.00	<p>(a) Registration of the contractor shall be cancelled, suspended or revoked if, among others, the contractor is adjudicated a bankrupt and a winding up petition has been presented against the contractor;</p> <p>(b) This certificate is non-transferable.</p>	Complied

4. INFORMATION ON THE KNM GROUP (Cont'd)

Licence / Authority	Date of Issue	Major Conditions	Status of Compliance
<p>1. Licence under class A and D to buy, process, handle, use, carry and import/export radioactive substance under Akta Perlesenan Tenaga Atom 1984 dan Peraturan-Peraturan Perlindungan Sinaran (Perlesenan) 1986 at premise Lot 208, Bukit Rambai Ind. Estate Phase IVB 75250 Melaka valid from 26 February 2003 to 25 February 2006.</p>	14.02.02	<p>(a) The licence holder must ensure that only the "Orang Yang Bertanggungjawab Terhadap Lesen" or Ray Protection Officer for the radiography industry activity communicate with the Lembaga.</p> <p>(b) Failure of the licence holder to comply with any instruction relating to this licence can result in a Section 40 Atom Power Licence Act 1984 (Act 304) breach. In the event no provisions for penalty are made then the licence holder can be subjected to imprisonment for a period of not more than 10 years or a fine of not more than RM 100,000.00 per month.</p> <p>(c) The holder must display a copy of the licence near to the radiography equipment to enable easy checking at any time.</p> <p>(d) Renewal application of this licence must be made not less than 30 days and not more than 60 days from the expiry date.</p>	Complied

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

4.7.2 Vendor Approvals

KNMPS has been granted approval from the following customers:

- (a) PETRONAS under the product groups of Unfired Pressure Vessel (Class I, II & III), Heat process Equipment (Fired, & Unfired), Waste Heat Recovery Unit (Fired & Unfired), Mechanical Maintenance, Construction Work – Major, Hook Up & Commissioning, Design Small Tanks (Less than 100 KBBL), Design Large Tanks (More than 100 KBBL), Flare System, Dehydration System, Water Treating Equipment and Minor Fabrication / Welding;
- (b) Sarawak Shell Berhad, which allows the Company to submit bids for any open tenders on small tanks, large tanks and foundation and association works under the Work Categories Tanks / Tanks Farm;
- (c) Shell Refining Company (FOM) Berhad as approved contractor;
- (d) Brunei Shell Petroleum Company Sdn Bhd under the Products Groups of Chlorination Plants, Internal Pressure Vessels & Columns, Dryers, Furnaces, Separator (general), Separators (oil & gas), Pressure Vessels, Flare Equipments and Tower Packing (structured);
- (e) Kuwait National Petroleum Company for the supply materials for gas recovery, pressure vessels (both up to and over 2 inches wall thickness), coolers, fans and heat exchangers for the Kuwait National Petroleum Company refineries;
- (f) Kuwait National Petroleum Company as approved contractor for Steel Tanks for Petroleum Products; Refinery Piping and Associated Works and Plant Installation;
- (g) Kuwait Oil Company (K.S.C.) as approved contractor for construction of new mega storage tanks (exceeding 500,000 BBL);
- (h) Kuwait Oil Company (K.S.C.) as approved vendor for manufacture pressure vessels;
- (i) Petrochemical Industries Co. (K.S.C.) as approved vendor for heat exchangers, tankage and tank farms, pressure vessels and towers, fired heaters, boiler and flare stacks;
- (j) Petroleum Development Oman LLC as approved contractors for Tank Construction, Large Tank Construction and Tank Cleaning & Repair;
- (k) Qatar Petroleum for the product categorized under Plant Elements and parts for columns, condensers and coolers, cooling towers, heat exchangers, reactors, separators, stacks, ventilation stacks, process tanks and vessels;
- (l) Qatar Petroleum as registered contractor for mechanical and project construction: design, supply and erection/start-up/commissioning of plant equipment;
- (m) Federal Republic of Nigeria permit to operate as an oil industry service company under the construction services category – engineering, design, metal fabrication, installation of pressure vessel process skid packages and LPG tank;

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

- (n) Saudi Arabian Oil Company as one of the approved contractors; and
- (o) Sakhalin Energy Investment Company ("SEIC") for the work-categories of the Group's services and products.

4.7.3 ISO 9001 Certificate By ABS Quality Evaluations Inc. Of USA

KNM has been granted a Quality Management System Registration Certificate by ABS Quality Evaluations, Inc. of USA certifying that KNMPS has implemented a quality system complying with the quality standards of ISO 9001 applicable to the design, manufacture, construction and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialized structural assemblies and module assemblies.

4.7.4 Memberships

- (a) KNMPS is a member of the Malaysian Structure Steel Association ("MSSA");
- (b) KNMPS is a member of the Federation of Malaysian Manufacturers ("FMM");
- (c) KNMPS was elected Company Member of the Institute of Materials Malaysia ("IMM");
- (d) KNMPS is an Ordinary Corporate Member of the Malaysian Gas Association ("MGA");
- (e) KNMPS is a member of the Construction Industry Development Board Malaysia ("CIDB") under Grade G7;
- (f) KNMPS has been registered with Malaysia External Trade Development Corporation ("MATRADE") as a MATRADE Exporter;
- (g) KNM-DP has been registered with MATRADE as a MATRADE Exporter;
- (h) KNMO has been registered with MATRADE as a MATRADE Exporter; and
- (i) KNMI has been registered with MATRADE as a MATRADE Exporter.

4.8 Major Customers

KNM Group's customers are mainly divided into two groups:

- a) EPCC contractors; and
- b) Oil, Gas and Petrochemical companies.

There are two ways in which the Group accesses its customers:

- (i) Direct customers, which are mainly oil, gas and petrochemical companies who tender out jobs and select companies to manufacture process equipment. These direct customers comprise of owners, operators and producers of oil, gas and petrochemical companies.
- (ii) Indirect customers are mainly EPCC contractors, which are responsible for designing the entire processing complex. Once the EPCC contractors have completed their designs, they tender out jobs and select companies to manufacture process equipment for various parts of the entire complex.

4. INFORMATION ON THE KNM GROUP (Cont'd)

The top ten customers of the KNM Group as at financial year ended 31 December 2002 are as follows:

	Customers	Country	Length of Relationship (No. of Years)	Percentage of total revenue (%)
1.	Toyo Engineering Corporation Sdn Bhd	Malaysia / Japan	11	36.2
2.	Sarawak Shell Bhd	Malaysia / Netherlands	13	13.8
3.	Dresser Kellogg Energy Services Inc. / Halliburton Far East Pte Ltd	USA	2	13.0
4.	Clough Engineering Ltd	Australia	3	8.9
5.	Petronas Carigali Sdn Bhd	Malaysia	12	8.6
6.	Malaysia LNG Sdn Bhd	Malaysia	11	3.2
7.	Valero Refining / Jacobs Engineering Group Inc.	USA	3	2.9
8.	Ultramar Inc. / Fluor Daniel Inc.	USA	3	2.3
9.	Petronas Fertiliser Sdn Bhd	Malaysia	1	1.8
10.	Inco Australia Management Pty Ltd	Australia	1	1.6

Apart from Toyo Engineering Corporation Sdn Bhd, Sarawak Shell Bhd and Dresser Kellogg Energy Services Inc/Halliburton Far East Pte Ltd which contributed approximately 36.2%, 13.8% and 13.0% respectively. None of the other KNM customers contributed more than 10% of the company's revenue for the financial year ended 31 December 2002.

The Group has established a close working relationship with its customers whereby approximately 50% of all its top 83 customers have been dealing with the Group for approximately 5 to 12 years since its inception with repeat orders. The KNM Group also has entered into a global sourcing and supply arrangement with TradeMC Inc. (a subsidiary of Fluor Corporation) for a period of 5 years from 2001.

4.9 Major Suppliers

Overall, the KNM Group sources its raw materials predominantly from imports. Imports of raw materials accounted for approximately 68% of the total raw materials used by the Group in the manufacturing of process equipment in 2002. In most of the orders, KNM Group is required to comply with the client's specified manufacturers and country of supply of the raw materials to be used for the production of equipment purchased. On other occasions, the grade of raw materials which have been specified by customers are not locally available in Malaysia.

KNM Group has established a strong working relationship with suppliers and this is indicated by the fact that most of the Group's suppliers have been working with KNM Group between 5 to 10 years since inception. Their largest supplier is Saarstahl-Export GMBH ("Saarstahl"), which supplies hot-rolled steel plates. Purchases from Saarstahl accounted for 9.9% of the total purchases of raw materials for the financial year ended 31 December 2002. KNM has an extensive list of suppliers for its raw material and each of them do not individually contribute more than 10% of the group total purchase for the financial year ended 31 December 2002. Thus, the dependency on any one supplier is minimized.

4. INFORMATION ON THE KNM GROUP (Cont'd)

The following are the top ten suppliers of the KNM Group for the financial year ended 31 December 2002:

No	Suppliers Name	Country	Description	Length of relationship (No. of years)	Percentage of total purchases (%)
1.	Saarstahl – Export GMBH	Germany	Supply of hot rolled steel plates	1	9.9
2.	Mitsui & Co. Ltd.	Japan	Supply of hot rolled steel plates	4	9.0
3.	Tokki Ltd.	Japan	Supply of semi-elliptical head	4	9.0
4.	Fukusuke Kiko Co. Ltd.	Japan	Supply of clad shell plates	6	7.0
5.	Usinor Industeel	Belgium	Supply of stainless steel plates	2	5.0
6.	Dugwoo Co. Ltd.	South Korea	Supply flanges	3	5.0
7.	Esab (Malaysia) Sdn Bhd	Malaysia / Sweden	Supply of welding electrodes	7	5.0
8.	Special Metals Pacific Pte Ltd	Singapore / USA	Supply of tubesheet	1	4.0
9.	Tae Woong Co. Ltd.	South Korea	Supply of flanges and forging materials	4	4.0
10.	NKK Trading Inc.	Japan	Supply of hot rolled steel plates	4	3.0

4.10 Viability, Vulnerability, Capability To Diversify, Future Plans And Strategies

4.10.1 Viability

(a) Product Diversity

KNM Group manufactures a wide diversity of equipment that is used within processing plants for the oil, gas and petrochemical industries. Process equipment including columns, reactors, separators, pressure vessels, skid packages, heat exchangers and air coolers represent the largest proportion of its products accounting for 50% of the Group's total turnover for financial year ended 2002; followed by LPG Mounded Bullets and construction of Terminals, Refineries and Process Plants at at 36% and 10% respectively.

KNM's capabilities in manufacturing a wide product range provides the advantage of being able to address a wider scope of business opportunities arising from the oil, gas and petrochemical industries as well as being able to meet the needs of a wider customer base, locally as well as globally. Moreover, the Group's wide range of products also helps to minimize over-reliance on any one or small range of products, or within a narrow sector of the oil, gas and petrochemical industries.

In addition to manufacturing physical products, KNM Group also provides technical and non-technical services as part of its portfolio of products and services as well as being part of an integrated manufacturer or turnkey operator. The range of services offered by KNM includes Systems and Product Design, Systems and Product Engineering, Post Weld Heat Treatment, Site Assembly and Erection, Commissioning and Hook-Up, Maintenance, Inspection as well as Retrofit and Revamp.

4. INFORMATION ON THE KNM GROUP (Cont'd)

The above services which complements its manufacturing capabilities provides KNM with the advantage of being able to offer total turnkey solutions, especially incorporating design and engineering services. This, in turn, helps the Group address a wider scope of business opportunities arising from the Oil, Gas and Petrochemical Industries. In addition, as the services offered are value-adding, they help maximize the Group's profits for every project undertaken by the Group.

In terms of applications, KNM Group's products are focused in two major industries, namely, Oil and Gas, and Petrochemicals. In 2001, Petroleum products including petrochemicals represented RM129.2 million.

(b) *Elasticity of Demand*

In general, the elasticity of demand for KNM Group's products is low to moderate. This is due to the fact that price is not necessarily the main consideration in winning projects. Other factors such as design and engineering capabilities, the ability to provide turnkey solutions, high standards of quality, the ability to meet stringent specifications as well as timely delivery are also critical in winning projects.

However, by the same token, when bidding for projects, KNM has to be cost competitive at all times as there will always be competition from local as well as overseas manufacturers. Depending on the size of the project, the competitive intensity, which also governs the elasticity of demand, is different. For smaller projects, pricing is a more significant criterion, as there are many other operators who have the capacity to bid them these projects. For larger projects, however, there is less pressure on pricing because there are significantly less operators that have the necessary skills, resources, track record and equipment to undertake such tasks.

The Group's key competitive advantage is its capabilities in undertaking mega-sized and turnkey projects, requiring design and engineering expertise. As such, with significantly lower competition, most of KNM Group's jobs are not as price sensitive.

(c) *Competitive Advantages of KNM Group*

The competitive advantages of KNM Group are as follows:

(i) *Quality Assurance*

KNM Group's quality accreditations by international bodies are critical in an industry that is strongly governed by stringent quality standards and regulations. Contrary to the process equipment used in other industries, the oil, gas and petrochemical industries are more demanding in terms of specifications due to the higher pressure and temperature requirements as well as the volatility of the contents.

The Group design and engineering team have the skills and expertise to design and manufacture process equipment according to international codes of practices including ASME, API, BS, DIN, GB and JIS. This provides customers with the assurance and the confidence in the quality that are of international standards.

4. INFORMATION ON THE KNM GROUP (Cont'd)

KNM Group's extensive quality accreditations provide the company with a competitive advantage over other manufacturers that do not have such affirmation or approvals in quality.

(ii) ***Design and Engineering Capabilities***

KNM Group's in-house design and engineering capabilities are a major advantage as it can provide customers with turnkey services from design and engineering, manufacturing, testing and erection through to commissioning and hook-up. This enables the Group to add significant value by having input into the total design of the end product, which invariably helps the Group to compete on an international level.

(iii) ***Manufacturing Facilities and Capabilities***

KNM Group has a number of machineries that enables it to undertake specialized and mega-sized projects. Although these machineries are merely assets that may be purchased by competitors, not many operators have such a comprehensive range of critical machinery. This points to the fact that there must be sufficient volume of work to justify investments in these machineries and equipment. From this perspective, the Group has the volume of work to ensure good utilisation of assets.

(iv) ***Manufacturing Innovations***

KNM Group, supported by many experienced and qualified staff, has been innovative in meeting customers' requirements by creating competitive advantages to continue winning projects. Some of KNM Group's in-house developed innovations include the 'Collift' that enables faster manufacturing on the ground and safer lifting of large completed cone roof, 1,200 tonnes Synchronised Jacks used for lifting mega-sized pressure vessels and Post Weld Heat Treatment for mega-size pressure vessels up to 100 meters long.

The ability to innovate to meet customers' requirements provides them with key competitive advantages that are unable to be matched by other competitors.

(v) ***Timely Delivery***

KNM Group prides itself in being able to complete projects on time. This is key as timely delivery not only reduces the customer's costs but also ensures repeat orders from the very same customer. Amongst others, the Group's ability to meet a delivery time-frame is a reflection of its innovation in manufacturing that increases its effectiveness and efficiency. A reputation for timely delivery provides KNM with an added competitive advantage as virtually all KNM's customers wish to complete projects in as short a time-frame as possible.

4. INFORMATION ON THE KNM GROUP (Cont'd)

(vi) Turnkey Solutions

The provision of turnkey solutions are important to customers as it is significantly more convenient in terms of less administration, project management and logistic problems. From the manufacturers point of view, the ability to provide turnkey solutions provides them with the incentive to offer the highest quality job as manufacturers which provide turnkey solutions are fully responsible for the whole project from design and engineering stage to commissioning and hook-up.

Due to its in-house design and engineering capabilities, KNM Group is one of the relatively few operators who are able to provide turnkey solutions. This means that the Group has yet another competitive advantage over other competitors in the process equipment for the oil, gas and petrochemical industry.

(vii) Track Record

A key criterion in winning projects is reference sites, which implies a track record. From this perspective, KNM Group, having operated in the industry for 12 years, comes with impeccable credentials from its past customers. The Group's ability to win jobs from highly reputable local as well as foreign conglomerates in the oil, gas and petrochemical Industries provides it with significant competitive advantage over another operator with a less impressive track record.

(viii) Market Reputation and Achievements

Over the last 12 years, KNM has built a strong market reputation associated with the ability to deliver process equipment that is of world-class standards. To date, KNM has set the benchmark for the industry by setting records in the Malaysia Book of Records for the completion of the largest and heaviest LPG Mounded Bullet Tank, the tallest roof supporting single mast for the National Sports Complex in Bukit Jalil and the tallest and heaviest pressure vessel, a propylene-propane splitter for a Propane Dehydrogenation Plant in Malaysia. In addition, KNMS has also received a Special Mention Award from CORAL Malaysia for the completion of the Propane Dehydrogenation Plant for Petronas in recognition of its exemplary performance and the Supplier of the Month for June 2002 by Halliburton / Conoco-Phillips for the Belanak Floating Production Storage and Offloading ("FPSO") Project and has been elected to receive a Gold Award in the Delivering Supplier Excellence Scheme for its towers/columns.

Source: Vital Factor's Report on Prospects and Future Plans of the KNM Group updated on 30 April 2003

4. INFORMATION ON THE KNM GROUP (Cont'd)

4.10.2 Vulnerability

(a) Long Term Contracts

KNM Group's business is mainly based on contractual agreements between customers and the subsidiary or associated company of KNM Group. This is according to normal industry practices as different product specifications, conditions, pricing and timing of completion govern each project. As such, in this industry, there are no long-term contracts per se. Each contract is awarded based on competitive bids from local as well as overseas operators.

However, in terms of business relationship, the Group has established a very close working relationship with its customers whereby approximately 50% of all its 83 customers have been dealing with the Group for approximately 5 to 12 years since its inception. These long term working relationships will ensure the continuity in business between KNM Group and its customers.

(b) Availability of Resources

The three areas of resources that KNM Group is dependent on are as follows:

Finance

KNM Group has been profitable since it started operations 12 years ago. Based on past performances, the Group has a strong financial standing and has not been in any financial distress. The Group continues to have good working relationships with its banks for any extension of loans if required. However, most of its operations are currently financed by internally generated funds and retained profits.

Raw Materials

KNM Group has always been able to source its main raw materials, which are hot-rolled steel plates from overseas. Apart from that, the Group has never had any major problems in obtaining its supply of other raw materials from its overseas suppliers. Thus, KNM Group has not been nor it is likely to be threatened by shortages in raw materials.

Labour

As KNM Group's industry rely on professionally qualified labour and skilled labour, the Group will always face the potential threat of shortages in labour. However, to date, shortage of labour has never been an issue, neither has it impeded the Group's business growth or forced the Group to miss on any manufacturing schedule.

Source: Vital Factor's Report on Prospects and Future Plans of the KNM Group updated on 30 April 2003

4. INFORMATION ON THE KNM GROUP (Cont'd)

4.10.3 Capability To Diversify

If there is a business case to do so, KNM Group is able to diversify into the following areas:

(a) Applications In The Non-Oil, Gas And Petrochemical Industries

Apart from the oil, gas and petrochemical industries, KNM Group's products and services could be used in pulp and paper mills, power and energy, pharmaceutical, palm oil mills and refineries, food and beverage processing plants, building, construction and infrastructure industries, inorganic chemicals and gases industries and oleochemical industry. The major difference between process equipment for the oil, gas and petrochemical industries and those industries mentioned above is that a significantly more stringent specification and higher standards of quality and durability is required in the former due to the highly volatile nature of the oil, gas and petrochemical products.

(b) Diversity From Providing Specialist Services

KNM Group has many in-house services that are potential for the provision to external parties. Some of these include systems design and engineering, post weld heat treatment, 'collift' for vertical lifting of completed roofing and the TOFD non-destructive testing. These services are relatively unique as they require significant amount of technical skills, the use of sophisticated equipments and in some situations, the use of the Group's proprietary processes.

(c) Diversity From The Use Of Alternative Materials

As part of its future plans, the Group is also exploring the opportunity of diversifying into process equipments using non-ferrous metals, particularly exotic metals. As such equipments are currently all fully imported, the capability to manufacture these types of process equipments would significantly differentiate KNM Group from other operators.

The capability of KNM Group to diversify into new applications and industries not only helps the Group to mitigate or minimize its exposure to any potential risks or threats that may be inherent in the oil, gas and petrochemical industries, but also provides KNM Group with further opportunities to expand its existing revenues.

Source: Vital Factor's Report on Prospects and Future Plans of the KNM Group updated on 30 April 2003

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

4.10.4 Future Plans And Strategies

KNM Group's future plans are focused on three main areas of growth and expansion, detailed as follows:

(a) *International Focus And Expansion*

To fulfill KNM Group's overall vision of becoming one of the major players in the international area, the Group intends to make inroads into overseas markets to capitalize on new opportunities. In order to enhance its presence in the region, the Group has plans for the appointment of agents and representatives and/or for the development of strategic alliances, as well as for the establishment of regional marketing or liaison offices. To date, KNM Group has already appointed agents in Oman, Jordan, Kuwait, Qatar, Iran, UAE, Indonesia, Europe and USA to assist them in lobbying for new projects in these countries.

In addition, the international focus and expansion will also help reduce the Group's over-dependence on the Malaysian market.

(b) *Licensing Arrangements*

KNMPS, a wholly owned subsidiary of KNM Group, had also entered into a licensing agreement with JPM Ingenieurtechnik GmbH ("JPM"), a German based company specialising in plant engineering and turnkey delivery of large scaled plants, tanks, silos, apparatus and special process equipment. Under the licensee and representative agreement signed between KNMPS and JPM on 31 July 2000, KNMPS was granted sole and exclusive rights to market all JPM products and services within the Asia Pacific Region with the exception of the Gulf Region for a period of 5 years. Simultaneously, JPM agreed to market and assist KNMPS in securing potential orders from its existing clients, particularly those which are German companies. In addition, KNMPS was also granted a sole and exclusive licence to manufacture JPM's products, namely Gas Holder, Double Walled Tanks, Cryogenic Tanks, Large Volume Silos, Floating Roof Sealing System and Floating Roofs Special Internal Floaters. Under the same agreement, JPM has also agreed to provide technical assistance, on a required basis, to KNMPS' specific engineering and design of certain equipment, specialised welding procedure, specialised erection and lifting procedures, and delivery of special products.

It is hoped that the above licensing arrangement will expand KNM Group's product portfolio to further provide incremental business as well as diversification from the current range of products and customers.

(c) *New Business Areas*

(i) *Exotic Materials*

Many of the process equipments used in the oil, gas and petrochemical industries are made from Exotic Materials because they are able to withstand harsh or extreme environments. KNM Group plans to diversify into the production of process equipments made of these Exotic Materials which are currently, all imported from overseas.

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

(ii) *Specialist Services*

KNM Group also intends to commercialise a number of their in-house developed processes to external parties. Some of these include systems, design and engineering services, post weld heat treatment, 'collift' for vertical lifting of completed roofing and TOFD non-destructive testing of process equipments for the oil, gas and petrochemical industries.

At this present time, very few operators in the industry are able to carry out the full range of the above services as they require either proprietary, highly skilled labour or very specialized and expensive equipments. Thus, the provision of these services would further enhance the Group's revenue stream as well as provide a significant competitive edge over other operators in the industry.

Source: Vital Factor's Report on Prospects and Future Plans of the KNM Group updated on 30 April 2003

4.11 Industry Overview

4.11.1 Overview Of The Malaysian Economy

The Malaysian economy experienced its sharpest deceleration in 1998 when Gross Domestic Product ("GDP") contracted by 7.4%, reflecting the effects of the East Asian financial crisis, which began in July 1997.

To promote economic recovery, a comprehensive set of policies consisting of expansionary fiscal and accommodative monetary policies, a fixed exchange rate, selective exchange controls and a longer-term programme of restructuring for the corporate and financial sector, was implemented.

As a result of these policies and strong external demand, the economy turned around in 1999. GDP recorded strong positive growth of 6.1% with the value of GDP returning to almost the same level as in 1997.

The Malaysian economy expanded by 8.3% for the year 2000, surpassing an earlier Government forecast of 7.5%. While the performance was supported by strong external demand, the main contributor to economic growth was the increase in private consumption and a strong revival in domestic investment. Continued prudent macroeconomic policies and restructuring efforts to diversify the country's economic structure significantly improved economic and financial fundamentals *(Source: Bank Negara Malaysia Annual Report 2000)*.

In 2001, the outlook of the global economy became uncertain largely due to the economic slowdown in the United States.

As a result, the Government announced a package of pre-emptive measures worth RM3 billion on 27 March 2001. This was to counter the effects of a global economic slowdown and to sustain the country's growth momentum built over the past 2 years. Supported by prevailing strong economic fundamentals, the new pre-emptive measures directed at stimulating domestic demand were expected to raise GDP growth closer to 6% for 2001 *(Source: Bank Negara Malaysia Annual Report 2000)*.

4. INFORMATION ON THE KNM GROUP (Cont'd)

However following the terrorist attacks on the United States on the 11th of September 2001, the outlook of the global economy became increasingly uncertain. The contagion effects of the United States' economy on the rest of the world were significant.

On 25 September 2001, the Government announced another RM4.3 billion stimulus package, to be implemented swiftly to further cushion the impact of a global slowdown on Malaysia. The RM4.3 billion package was part of the total fund allocation under The Budget 2002.

In 2001, the economy experienced a growth of 0.4% in real GDP. The slower growth of real GDP was mainly attributed to the slowdown of the United States and global economy.

In 2002, real GDP grew by 4.2%. The growth was mainly derived from domestic demand and reinforced by favourable export performance. The growth in domestic demand was contributed by strong consumer spending, continued recovery in investment activities and expansion in public sector expenditure.

In 2002, the Government proposed a budget amounting to RM109.8 billion for 2003, an increase of 9.2% over the previous budget. In view of a global recovery from economic uncertainties, the 2003 Budget focuses on further stimulating economic growth through encouraging domestic activities with an expectation of the services and manufacturing industries to continue to lead the nation's economic growth momentum.

For 2003, GDP is expected to grow by 4.5%.

On 21 May 2003, the Government announced a RM7.3 billion Stimulus Package aimed at mitigating some of the adverse impact brought about by external factors including the Iraq war and the outbreak of Severe Acute Respiratory Syndrome ("SARS"). The Package, which focuses on four main strategies comprising 90 measures, aims at stimulating economic activities by mobilising domestic sources of growth and, at the same time, reducing dependency on the external sector. This will help ensure Malaysia's economic fundamentals remain strong in the medium and long term.

Source: Vital Factor's Industry Assessment Report updated on 30 April 2003

4.11.2 Overview Of The Process Equipment Industry For The Oil, Gas And Petrochemical Sector

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. These equipments are essentially critical components used in the production, refining and processing of crude oil and natural gas. Equipment such as distillation columns, separators, pressure vessels and heat exchangers are often regarded as the heart of oil refineries or gas processing plants.

According to MIDA, process equipment for the oil, gas and petrochemical industries is within the Machinery and Equipment Industry. Equipments under the Machinery and Equipment categories include columns, towers, reactors, separators, flare stacks, process skid packages, air coolers, heat exchangers, specialised piping systems, pressure vessels, LPG mounded bullets, drums, storage tanks, spheres and cryogenic tanks.

The process equipment for oil, gas and petrochemical industries can be vertically segmented into the upstream sector and the downstream sector.

4. INFORMATION ON THE KNM GROUP (Cont'd)

The upstream sector of the process equipment essentially comprises:

- (a) owners of oil and gas production and processing facilities, which are usually the oil and gas companies,
- (b) turnkey contractors or designers of the process plant or facilities normally commissioned by the plant owners. The EPCC contractors, which are the turnkey contractors, are normally the owners of proprietary plant designs and processes who design, engineer, construct and commission the entire production and process facilities; and
- (c) suppliers of raw materials such as iron and steel manufacturers, steel forging companies and electrodes manufacturers.

Activities in the upstream sector include exploration and production of crude oil and Natural Gas. In 2001, the production of crude oil and condensates in Malaysia averaged 666,149 barrels per day while Natural Gas production averaged 4.5 billion standard cubic feet of gas per day.

The downstream sector comprises manufacturers and fabricators of process equipments. Activities in the downstream sector include refining, gas processing, petrochemical manufacturing, marketing and retailing of oil and gas products.

Currently, there are five oil refineries in the countries producing approximately 600,000 barrels per day using mainly local crude. To date, Petronas has 47 producing oil fields and several others under development. As at 1 January 2003, Malaysia has about 3.2 billion barrels of crude oil reserves. The crude oil reserves of Malaysia will last for approximately 16 years.

Currently Malaysia produces five billion cubic feet of gas per day. The products are mainly methane, the gas for power generation and petrochemical feedstock such as ethane, propane, butane and condensates.

As at 1 January 2003, Malaysia has about 87.5 trillion standard cubic feet of gas reserves. The gas reserves of Malaysia will last for approximately 36 years.

The three LNG plants in Malaysia have a production capacity of 23 million tonnes per annum. Currently two of the LNG plants produce approximately 15 million tonnes per annum, of which more than 90% is exported. The third LNG Plant is new and is scheduled to commence operation in 2003.

The number of players in the manufacturing of process equipment for the oil, gas and petrochemical industries is relatively low with approximately thirty to fifty players servicing a large market dominated by imports.

According to MIDA, imports of Process Equipment falls under the various categories within Machinery and Equipment:

- In 2001, imports of power generating machinery and equipment amounted to RM6.8 billion;
- Import of machinery and equipment for specific industries amounted to RM8.7 billion in 2001;
- Import of metal working machinery and equipment amounted to RM2.8 billion in 2001.

Source: Vital Factor's Industry Assessment Report updated on 30 April 2003

4. INFORMATION ON THE KNM GROUP (Cont'd)

4.11.3 Industry Life-Cycle

The life-cycle of the manufacturing of process equipment for oil, gas and petrochemical industries is in its growth stage and is supported by the following:

(a) Growth In The Production Of Oil, Gas And Petrochemical Industries.

- In 2001, production of crude oil and condensates declined by 2.1%, however for the fourth quarter of 2002, production increased by 9.7% to reach 732,722 barrels per day compared to the same period in 2001.
- In 2001, production of natural gas grew by 4.0% amounting to 4,542 million standard cubic feet per day (mmscfd).
- In 2002, production volume of LPG grew by 27.6% amounting to 2.9 million tonnes. Between 1998 and 2002, production volume of LPG grew at an average annual rate of 20.2%.

(b) Strong Growth In Sales Values In The Oil, Gas And Petrochemical Industries

- In 2002, sales value of crude oil refineries grew by 4.0% amounting to RM22.7 billion. Between 1998 and 2002, the sector registered an average annual growth rate of 29.7%.
- Between 1998 and 2002, the sales value of miscellaneous products of petroleum and coal grew at an average annual rate of 5.3%. In 2002, the sales value of miscellaneous products of petroleum and coal amounting to RM626.2 million.
- In 2002, sales value of synthetic resins, plastic materials and man-made fibre except glass grew by 9.6% amounting to RM5.8 billion. Between 1998 and 2002, the sector registered an average annual growth rate of 13.2%.

(c) Strong Growth In Export Value

- Between 1997 and 2001, gross export value of Crude Oil grew at an average annual rate of 12.0%.
- For the first eleven months of 2002, gross export value of crude oil rose by 1.0% to RM10.5 billion mainly due to higher prices.
- Between 1997 and 2001, gross export value of LNG grew by 15.0%. In 2001, the gross export value of LNG amounting to RM11.3 billion.
- In 2001, the gross export value of petroleum products grew by 3.4% and amounted to RM8.4 billion. Between 1997 and 2001, gross export value of Petroleum Product increased at an average annual rate of 25.7%.

Source: Vital Factor's Independent Industry Assessment Report updated on 30 April 2003

4. INFORMATION ON THE KNM GROUP *(Cont'd)*

4.11.4 Government Legislation, Policies And Incentives

Government Regulations

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.

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.

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.

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.

Source: Vital Factor's Industry Assessment Report updated on 30 April 2003

4.11.5 Governing Bodies And Standards

Quality and integrity of process equipments is critical due to the potentially hazardous nature of its usage in the oil, gas and petrochemical industries. As such, the manufacturing of process equipment is subjected to stringent quality standards and approvals by recognised governing bodies.

KNM Group has been audited and approved by the following standard and quality bodies:

- The ASME of USA
- ABS Quality Evaluations Inc. for its ISO 9001 of USA
- TÜV Suddeutschland of Germany
- National Board of Boiler and Pressure Vessel Inspectors of USA
- State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine

The certification from the relevant bodies has enabled the Group to provide local customers with the assurance of quality and also to gain access to overseas markets. These accreditations provide the Group with an added advantage over other manufacturers that do not have the full suite of standard qualifications and accreditation.

Source: Vital Factor's Business Overview Report updated on 30 April 2003

4. INFORMATION ON THE KNM GROUP (Cont'd)

4.11.6 Health And Environmental Regulations**Health**

The KNM Group is governed by the regulations from the Department of Occupational Safety and Health. In this respect, it should be noted that the Group has, to date, received many awards from customers regarding its impeccable safety standards.

Environmental

The KNM Group is not governed by any environmental regulations. This is because the process of manufacturing process equipments does not involve any waste discharge. As such, there is no material impact on the environment in terms of effluent. One exception, though, is the welding process during fabrication, which creates fumes that are harmful to employees in an enclosed environment. However, as the Group's manufacturing plant is based on an open concept, and thus very well ventilated, there is no major concern over the fumes.

Source: Vital Factor's Business Overview Report updated on 30 April 2003

4.11.7 Industrial Competition And Key Players**Competition**

Competition amongst the manufacturers of process equipments for the oil, gas and petrochemical industries is low to moderate, depending on the type of projects. For example, the competitive intensity for small and medium-sized projects are moderate, as there are between thirty to fifty manufacturers for this category of projects. On the other hand, the competitive intensity for mega-sized projects are low as there are less than ten manufacturers for this category of projects. For projects requiring design and engineering capabilities, the competitive intensity is low as there are relatively few manufacturers with in-house design and engineering skills.

Competitive intensity is predicated by the following factors:

- Process plant equipment for the oil, gas and petrochemical industries must be manufactured to the highest quality standard in accordance to the owner's or EPCC's specifications. This is particularly critical due to the stringent quality standards and safety requirements. The ability to design and manufacture equipment to such high standards is highly dependent on the design and engineering skills as well as experience of the manufacturers.
- In addition to design and engineering skills, some customers may specify that the process equipment are manufactured to internationally recognised codes such as those set by the ASME, API, BS, DIN, GB and JIS. In this respect only manufacturers that have received accreditation and approval from bodies such as ASME are authorised to use the internationally recognised stamps or mark on the equipment.
- On the other hand, the buyers of process equipment are essentially international oil companies and EPCC contractors. As such, the manufacturers, in bidding for a job, must have excellent safety records and attained recognised quality management system such as ISO 9001. It is also 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.

4. INFORMATION ON THE KNM GROUP (Cont'd)

- In the manufacturing of certain large process equipment such as production separators, or glycol with a thickness of up to 100 mm are used, the manufacturer must have appropriate machines and skills to bend and weld steel plates of such thickness.

Key Players

According to the Customs and Excise Department, pressure vessels exceeding 300 cubic centimetres and cooling towers are subjected to 15% and 25% import duties for non-AFTA members, respectively. Thus, local manufacturers have a slight advantage over imports in terms of pricing.

Apart from the local players, the industry faces competition from foreign manufacturers including major international players from Korea, Japan, Netherlands, Australia and Singapore.

However, since the recent economic downturn in 1998, most EPCC contractors began to consider sourcing for their equipments locally due to the insistence by Petronas and the Malaysian Government to reduce dependency on imported components and ultimately, foreign exchange outflow. It should also be highlighted that local manufacturers now have the advantage of being more cost competitive and are more familiar to local conditions.

Source: Vital Factor's Industry Assessment Report updated on 30 April 2003

4.11.8 Summary Of Outlook And Prospect Of The Industry

Based on the 5-year growth analysis and the recent growth trend observed in the first half of 2000 in respect of the production quantity and sales value of the oil, gas and petrochemical sector, it is envisaged that the industry is expected to grow at approximately 5% to 7% per annum for the next five years.

The growth of the manufacturing of process equipment for the oil, gas and petrochemical industries is dependent on the performance of its user industries, which are namely the producers and manufacturers of oil and gas products, intermediate users of oil and gas products for the manufacture of petrochemical and industrial gas products and 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 an increase in transportation and energy requirements as a result of the improvement in the Malaysian economy; and
- Increased activities in the manufacturing sector driven by the strong growth in the usage of petrochemical products including various types of plastic and plastic products, synthetic fibre, synthetic rubber products, industrial gases and organic chemicals.

4. INFORMATION ON THE KNM GROUP (Cont'd)

Overseas Markets

- Increase in demand for crude oil and natural gas driven by the improvement in the performances of Asian economies;
- Increase in exports of petrochemical products for the manufacturing sector; and
- Increase in exports of manufactured products and packaging materials that use Petrochemical products

Source: Vital Factor's Industry Assessment Report updated on 30 April 2003

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK