

## 2. DETAILS OF THE PUBLIC ISSUE

### 2.1 Application For Listing Of And Quotation On The Second Board Of The MSEB

This Prospectus is dated 28 January 2004. A copy of this Prospectus has been registered with the SC. A copy of this Prospectus, together with the form of application, has also been lodged with the ROC, and neither the SC nor the ROC takes no responsibility for its contents.

Approvals have been obtained from the SC in respect of the flotation of KST on the Second Board of the MSEB on 29 September 2003. The approval of the SC shall not be taken to indicate that the SC recommends the initial public offering and/or the flotation of KST on the Second Board of the MSEB. Investors should rely on their own evaluation to assess the merits and risks of any investments in the Company.

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

An application will be made to the MSEB within three (3) market days from the date of this Prospectus for admission to the Official List of the Second Board of the MSEB and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up ordinary shares of RM1.00 each in KST, including the Public Issue Shares, which are the subject of this Prospectus. These ordinary shares will be admitted to the Official List of the Second Board of the MSEB and official quotation will commence after the receipt of confirmation from MCD that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptance of the applications will be conditional upon permission being granted by the MSEB to deal in and for the quotation of the entire enlarged issued and fully paid-up ordinary shares of KST on the Second Board of the MSEB. Accordingly, monies paid in respect of any application accepted from the Public Issue will be returned without interest if the said permission for listing is not granted within six (6) weeks from the date of issue of this Prospectus or such longer period as may be specified by the SC, provided that the Company is notified by or on behalf of the MSEB within the aforesaid timeframe.

Pursuant to the SC Guidelines, at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each at the point of listing. In the event that the above requirement is not met pursuant to the Public Issue, the Company may not be allowed to proceed with its listing on the Second Board of the MSEB. In the event thereof, monies paid in respect of all applications will be returned without interest if the said permission is not granted.

Persons submitting applications by way of Application Forms or by way of Electronic Share Applications must have a CDS account. In the case of an applicant by way of Application Form, an applicant should state his CDS account number in the space provided in the Application Form. In the case of an applicant by way of Electronic Share Application, only an applicant who is an individual and has a CDS account can make an Electronic Share Application and the applicant shall furnish his/her CDS account number to the Participating Financial Institutions by way of keying in his/her CDS account number if the instructions on the ATM screen at which he/she enters his/her Electronic Share Application requires him/her to do so. A corporation or institution cannot apply for the Public Issue Shares by way of Electronic Share Application.

## 2. DETAILS OF THE PUBLIC ISSUE *(Cont'd)*

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

The distribution of this Prospectus and the making of the Public Issue Shares are subject to Malaysian laws and the Company and its Adviser take no responsibility for the distribution of this Prospectus and the sale of the Public Issue Shares outside Malaysia. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue Shares in any jurisdiction in which such invitation is not authorised or lawful, or to any person to whom it is unlawful to make such an invitation. Persons into whose possession this Prospectus may come are required to inform themselves of and to observe such restriction.

The SC and MSEB assume no responsibility for the correctness of any of the statements made or opinion or reports expressed in this Prospectus. Admission to the Official List of the Second Board of the MSEB is not to be taken as an indication of the merits of the Company or of its ordinary shares.

**If you are in doubt of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser.**

### 2.2 Opening And Closing Of Application Lists

The Application Lists will open at 10.00 am on 28 January 2004 and will remain open until 5.00 p.m. on 6 February 2004 or for such further period or periods as the Directors of KST together with the Managing Underwriter, in their absolute discretion may decide. Late applications will not be accepted.

### 2.3 Dates Of Special Events

Opening Date	:	Wednesday, 28 January 2004
Closing Date	:	Friday, 6 February 2004
Tentative Balloting Date	:	Tuesday, 10 February 2004
Tentative Allotment Date	:	Friday, 13 February 2004
Tentative Listing Date	:	Wednesday, 18 February 2004

This timetable is tentative and is subject to change which may be necessary to facilitate implementation procedures. This application period will remain open until 5.00 p.m. on 6 February 2004 or for such further period or periods as the Directors of KST together with the Managing Underwriter in their absolute discretion may decide. Should the application period be extended, the dates for the balloting and allotment of the Public Issue Shares and the listing of and quotation for the entire enlarged issued and fully paid up share capital of KST on the Second Board of MSEB would be extended accordingly. Any extension of the application period, will be notified to the investing public via announcement in widely circulated English and Bahasa Malaysia newspapers in Malaysia.

## 2. DETAILS OF THE PUBLIC ISSUE *(Cont'd)*

### 2.4 Purposes Of The Public Issue

The purposes of the Public Issue are as follows:

- (a) to obtain listing of and quotation for the entire enlarged issued and paid-up share capital of KST on the Second Board of the MSEB;
- (b) to provide an opportunity for the eligible employees of the KST Group and the Malaysian public to participate in the equity and continuing growth of the Group;
- (c) to enable the KST Group to gain access to the capital market to raise funds for future expansion, diversification, modification and continued growth; and
- (d) to provide additional funds to meet the present and future working capital requirements of the KST Group.

### 2.5 Share Capital

	<b>RM</b>
<i>Authorised:</i>	
<i>100,000,000 ordinary shares of RM1.00 each</i>	100,000,000
<i>Issued and fully paid up (before the Bonus Issue and the Acquisition of ST):</i>	
Existing 1,000,000 ordinary shares of RM1.00 each	1,000,000
<i>Issued as fully paid-up pursuant to:</i>	
Bonus Issue	15,500,000
Acquisition of ST	4,635,691
Rights Issue	8,664,309
<i>To be issued as fully paid-up pursuant to:</i>	
Public Issue	10,200,000
<b><i>Enlarged Share Capital</i></b>	<b>40,000,000</b>
<b><i>Issue Price Per Ordinary Share Of RM1.00 Each</i></b>	<b>1.30</b>

There is only one class of shares in the Company, being ordinary shares of RM1.00 each, all of which rank pari passu with one another. The Public Issue Shares shall rank pari passu in all respects with the existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of this Prospectus.

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

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**2. DETAILS OF THE PUBLIC ISSUE (Cont'd)**

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

**2.6 Details Of The Public Issue**

The Public Issue of 10,200,000 new ordinary shares of RM1.00 each respectively at an issue price of RM1.30 per ordinary share are payable in full on application upon such terms and conditions set out in this Prospectus. The Public Issue Shares shall be allocated in the following manner:

**(a) Allocation Via Balloting To The Malaysian Public**

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

**(b) Eligible Employees**

2,000,000 Public Issue Shares will be reserved for eligible employees of the KST Group.

The criteria of allocation to the eligible employees of the Group as at 15 October 2003 as approved by the Board of Directors of KST, are based on the job grade and years of service. Based on the above criteria, the 2,000,000 Public Issue shares will be allocated to 102 eligible employees of the Group.

**(c) Placement By The Placement Agent**

5,200,000 Public Issue Shares will be placed with placees to be identified by the Placement Agent of which 30% is to be set aside for Bumiputera investors.

The placement shares as set out in paragraph (c) above will not be underwritten. All the Public Issue Shares under paragraph (a) and 100,000 shares under paragraph (b) above have been fully underwritten. In the event the first 100,000 shares under paragraph (b) above is unsubscribed by the eligible employees of the Group, these shares shall be made available to the Malaysian public under paragraph (a) above. Tung Han Bee has given her irrevocable undertaking to subscribe for any remaining shares not subscribed by the eligible employees of the Group in (b) above.

**2.7 Basis Of Arriving At The Issue Price**

The Issue Price of RM1.30 per ordinary share of RM1.00 each is based on market driven pricing and has been arrived at after taking into account, inter alia, the following factors:

- (a) The Group's financial and operating history and conditions as outlined in Section 10 of this Prospectus;
- (b) The future plans and prospects of the KST Group as mentioned in Section 4.9 of this Prospectus;
- (c) The estimated and forecasted net PE Multiple of 2.70 times and 5.37 times based on the estimated and forecasted consolidated net EPS of 48.20 sen and 24.22 sen for the FYs ending 31 December 2003 and 31 December 2004, respectively;

## 2. DETAILS OF THE PUBLIC ISSUE *(Cont'd)*

- (d) The proforma consolidated NTA of KST as at 31 July 2003 of RM1.30 per share; and
- (e) The qualitative and quantitative factors as set out in Section 4 and 5 of this Prospectus.

### 2.8 Underwriting Commission, Brokerage And Placement Fees

#### Underwriter

Managing underwriter	Aseambankers
Underwriters	Mayban Securities Sendirian Berhad Aseambankers

The Underwriters may withdraw from their obligations under the Underwriting Agreement after the opening of the offer in the event that any of the warranties, representations, or undertakings given by the Company is breached prior to the listing date and on the occurrence of any unforeseen circumstances beyond the reasonable control of the contracting parties.

The Company shall bear all expenses such as brokerage and underwriting commissions, registration fees relating to the Public Issue together with all other expenses and fees incidental to the listing of and quotation for the entire issued and paid-up capital of KST on the Second Board of the MSEB estimated at RM1.6 million.

The Underwriters mentioned earlier in this Prospectus have agreed to underwrite the 3,000,000 Public Issue Shares to be made available to the Malaysian public and 100,000 shares for eligible employees of the KST Group in Section 2.6 above. Underwriting commission relating to the Public Issue Shares is payable by the Company at the rate of 1.5% of the Issue Price of RM1.30 per ordinary share.

Placement fees shall be payable by the Company to the Placement Agent at the rate of up to 1% of the Issue Price of RM1.30 per ordinary share in respect to the 5,200,000 Public Issue Shares to be placed with identified investors.

Brokerage relating to the Public Issue Shares are payable by the Company at the rate of 1.0% of the Issue Price of RM1.30 per ordinary share in respect of successful applications which bear the stamp of Aseambankers, participating organisations of MSEB, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or the Issuing House.

### 2.9 Salient Terms Of The Underwriting Agreement

The Underwriting Agreement entered into between KST, the Managing Underwriter and the Underwriters on 15 January 2004 ("Underwriting Agreement") contains the provisions set forth below:

#### 2.9.1 Covenants And Undertakings By The Company

**In consideration of the Underwriters agreeing, at the request of the Company, to underwrite the Underwritten Shares (as defined herein), the Company covenants and undertakes to the Underwriters as follows:-**

- (a) **Prospectus:** the Prospectus shall be in such form and substance satisfactory and acceptable to and approved by the SC and the MSEB and shall not contain any untrue statement or omit to state a material fact required or necessary to be stated therein to make the statements therein true, accurate and not misleading, and the Company shall promptly furnish to the Underwriters as many copies of the Prospectus as the Underwriters shall reasonably request;



2. **DETAILS OF THE PUBLIC ISSUE (Cont'd)**

- (b) **Revision of Prospectus:** if any event shall occur or condition exist as a result of which it is necessary, in the opinion of the Company, after consultation with the Underwriters, to further amend or supplement the Prospectus in order that the Prospectus will not include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein true, accurate and not misleading in light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary to amend or supplement the Prospectus in order to comply with the requirements of the SC Act or such relevant guidelines issued by the relevant regulatory authorities, prompt notice shall be given without any delay, and confirmed in writing, to the Underwriters, and the Company shall prepare and file or register as soon as practicable such amendment or supplement to the Prospectus as may be necessary to correct such misstatement or omission or to make the Prospectus comply with such requirements and the Company shall furnish to the Underwriters, without charge, such number of copies of such amendment or supplement as the Underwriters may reasonably request. In this respect, the filing of any such amendment or supplement shall not constitute a waiver of any of the provisions set out in the Underwriting Agreement;
- (c) **Distribution of Prospectus:** the Company shall not distribute the Prospectus or any relevant application forms for the Public Issue Shares or other material in any country or jurisdiction other than Malaysia;
- (d) **Compliance with the Act and the SC Act:** the Company shall comply with and procure that its directors comply with all relevant requirements and provisions of the Act and the SC Act in relation to the Public Issue and the Prospectus;
- (e) **Consents and Approvals:** all authorisations, approvals, consents or other orders required by the Company under the laws of Malaysia not already obtained by the Company for or in connection with the Public Issue shall be obtained and be in force and all other actions shall be taken by the Company to comply with all legal and other requirements necessary to ensure that the Public Issue shall not infringe any existing laws or terms of any such authorizations, approvals, consents or orders;
- (f) **Listing on MSEC and Compliance:** the Company shall make the relevant application to the MSEC and obtain the approval of MSEC for the Public Issue and the listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of MSEC and shall, at all times, maintain the said listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of MSEC, and shall comply with all conditions imposed by the SC and MSEC, if any, in respect thereof and/or in respect of the Public Issue;
- (g) **Public Issue:** the Public Issue shall be on the terms and conditions of the Prospectus and the Company shall apply the proceeds of the Public Issue Shares solely for the purposes set out in the letter of approval of SC dated 29 September 2003;

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**2. DETAILS OF THE PUBLIC ISSUE (Cont'd)**

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- (h) **Undertaking to Inform:** the Company shall promptly and without any delay notify the Underwriters of and provide the Underwriters with any facts, information, situations or circumstances which the Underwriters may reasonably need or require in relation to the Public Issue or which the Company believes may have or is likely to have a material adverse effect on the success of the Public Issue or on the sale of any Underwritten Shares and in particular and without prejudice to the generality of the foregoing, of any material adverse effect on the financial condition or business or operations of the Company, or on the prospects or future financial condition or business or operations of the Company or which affect any of the aforesaid representations or warranties at any time prior to the Closing Date or the Extended Closing Date, as the case may be, and take such steps as may be reasonably requested by the Underwriters to remedy and/or publicise the same;
- (i) **Closing Date:** the Closing Date unless extended in accordance with the provisions of the Underwriting Agreement, shall be the closing date as per the Prospectus. In this respect, any extension to the Closing Date shall require the approval of the Managing Underwriter, who may, in their sole and absolute discretion, agree to the same subject to the approvals of the relevant authorities;
- (j) **Notice of Certain Events:** Without prejudice to the generality of Clause 4.1(g) of the Underwriting Agreement, the Company shall promptly and without any delay notify the Underwriters of the following:
- (i) the transmittal to the SC for filing or registration of any supplement to the Prospectus;
  - (ii) the receipt of any comments from the SC with respect to the Prospectus or any supplement to the Prospectus;
  - (iii) any request by the SC for any amendment or supplement to the Prospectus or for additional information; and
  - (iv) the issuance by the SC of any order suspending the effectiveness of the listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of the MASEB or the initiation of any proceedings for that purpose. In this respect, the Company shall make every reasonable effort to prevent the issuance of any such order and, if any such order is issued, to obtain the lifting thereof at the earliest possible time unless the Company shall, in consultation with the Underwriters, determine that it is not in its best interest to do so;
- (k) **Costs:** the Company shall pay all and any stamp duties and other fees (including legal fees on a solicitor and client basis), taxes or duties, including any interest and penalties resulting from delay or omission on the part of the Company, payable in Malaysia on or in connection with the execution and enforcement of the Underwriting Agreement, the Public Issue and/or the creation, issue and allotment of the Public Issue Shares;
- (l) **Further Assurance:** the Company shall execute and do and procure all other persons, if necessary, to execute and do all such further deeds, assurance, acts and things as may be reasonably required in order to implement and complete the Public Issue so that full effect may be given to the terms and conditions of the Underwriting Agreement;

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**2. DETAILS OF THE PUBLIC ISSUE (Cont'd)**

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- (m) **Delivery of Resolutions:** the Company shall deliver to the Underwriters, certified true copies of all relevant resolutions of the board of directors and shareholders of the Company relating to the Public Issue and the Underwriting Agreement as the Underwriters may reasonably require;
- (n) **Conditions Precedent:** the Company shall use its best endeavours to procure the fulfillment of all the conditions precedent in Clause 6.1 of the Underwriting Agreement; and
- (o) **Underwritten Shares:** 3,100,000 Public Issue Shares to be made available to be Malaysia public, eligible employees of the Company and its subsidiary at the Issue Price.

**2.9.2 Conditions Precedent For Underwriting**

The obligations of the Underwriters under the Underwriting Agreement shall be conditional upon the fulfillment and/or satisfaction of the following:-

- (a) the MSEB having agreed in principle on or prior to the Closing Date or such other date as may be agreed between the Managing Underwriter and the Company, to the listing of and quotation for (on terms satisfactory to the Underwriters) the entire issued and paid-up share capital of the Company on the Second Board of the MSEB;
- (b) the issuance of and subscription for the Public Issue Shares pursuant to and in accordance with the provisions hereof and in the Prospectus not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any agency, legislative, executive or regulatory body or authority of Malaysia (including the MSEB);
- (c) the registration of the Prospectus with the SC pursuant to the SC Act and subsequent lodgement of the Prospectus with the ROC;
- (d) there having been, as at any time hereafter up to and including the Closing Date or the Extended Closing Date, as the case may be, no event of default pursuant to the provisions herein contained, and no breach of any representation, warranty, covenant, undertaking or obligation of the Company in the Underwriting Agreement or which is contained in any certificate, statement, or notice provided under or in connection with the Underwriting Agreement or which proves to be incorrect in any material respect; and



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**2. DETAILS OF THE PUBLIC ISSUE (Cont'd)**

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- (e) there having been, as at any time hereafter up to and including the Closing Date or the Extended Closing Date, as the case may be, no material adverse change, or any development involving a prospective material adverse change, in the financial condition or business or operations of the Company or business or operations of the Company or in the prospects or future financial condition or business or operations of the Company (which in the reasonable opinion of the Underwriters, is or will be material in the context of the Public Issue and the sale of any Underwritten Shares) from that set forth in the Prospectus, nor the occurrence of any event nor the discovery of any fact rendering inaccurate, untrue or incorrect to such extent which is or will be material in any of the representations, warranties, covenants and undertakings and obligations of the Company herein contained.

In the event any of the conditions set forth in Clause 6.1 of the Underwriting Agreement are not satisfied on or before the Closing Date or Extended Closing Date, as the case may be, the Underwriters shall be released and discharge from their obligations hereunder whereupon the Underwriting Agreement shall be of no further force and no party shall be under any liability to the other in respect of the Underwriting Agreement, save and except that the Company shall remain liable in respect of its obligations and liabilities hereunder including the payment of the underwriting commission and the payment of costs and expenses as provided in Clause 14 of the Underwriting Agreement which has already incurred prior to or in connection with such termination and for any antecedent breach under the Underwriting Agreement.

**2.9.3 Under Subscription Of The Underwritten Shares**

If, on the Closing Date or the Extended Closing Date as the case may be or such later date as the directors of the Company may determine in agreement with the Underwriters, the whole of the Underwritten Shares have been validly taken up in full, then no allotment of the Underwritten Shares shall be made to the Underwriters, but, if on such date, the Underwritten Shares shall not have been validly taken up in full, then the Underwriters shall be bound, subject to the fulfillment of the conditions in Clause 6.1 of the Underwriting Agreement, to subscribe for so much of the Underwritten Shares not subscribed pursuant to the Public Issue in proportions with their respective commitments as stipulated in Column 3 of the Schedule of the Underwriting Agreement upon the terms and subject to the conditions of the Underwriting Agreement.

**2.9.4 Termination**

Notwithstanding anything herein contained, the Underwriters may, at any time, be entitled to terminate their obligations under this of the Underwriting Agreement by notice in writing delivered to the Company, if in the reasonable opinion of the Underwriters, there shall have occurred, happened or come into effect, any of the following circumstances, on or before the Closing Date or the Extended Closing Date as the case may be, namely:-

- (a) any government requisition or other occurrence of any nature whatsoever which would or is likely to have a material adverse effect on the financial condition or business or operations of the Company, and/or the prospects or future financial condition or business or operations of the Company;

2. DETAILS OF THE PUBLIC ISSUE *(Cont'd)*

- (b) any change in national or international monetary, financial, political or economic conditions or exchange control or currency exchange rates which would or is likely to have a material adverse effect on the success of the Public Issue, and the distribution of the Public Issue Shares or the sale of any Underwritten Shares (whether in the primary or in respect of dealings on the secondary market);
- (c) any change in law, regulation, directive, policy or ruling in any jurisdiction which would or is likely to have a material adverse effect on the success of the Public Issue and the distribution of the Public Issue Shares or the sale of any Underwritten Shares (whether in the primary or in respect of dealings on the secondary market);
- (d) any event or series of events beyond the reasonable control of the Underwriters by reason of force majeure which has or is likely to make of the Underwriting Agreement or any part thereof incapable of performance or which would or is likely to have a material adverse effect on the success of the Public Issue and the distribution of the Public Issue Shares or the sale of any Underwritten Shares.

“Force Majeure” shall mean causes which are unpredictable and beyond the reasonable control of the party claiming force majeure which could not have been avoided or prevented by reasonable foresight, planning and implementation [including without limitation (i) war, acts of warfare, hostilities (whether war be declared or not) invasion, incursion by armed force, act of hostile army, nation or enemy; (ii) riot, uprising against constituted authority, civil commotion, disorder, rebellion, organised armed resistance to the government, insurrection, revolt, military or usurped power, civil war, industrial action; (iii) flood, fire, arson, storm, lightning tempest, accident, or other acts of God; and (iv) epidemic, explosion, disease, earthquake, hijacking, sabotage, crime;

- (e) any breach of any representation, warranty, covenant, undertaking or obligation of the Company in the Underwriting Agreement or which is contained in any certificate, statement, or notice provided under or in connection with the Underwriting Agreement or which proves to be incorrect in any material respect;
- (f) the occurrence of any event or the discovery of any fact rendering inaccurate, untrue or incorrect to such extent which is or will be material in any of the representations, warranties, covenants and undertakings and obligations of the Company herein contained; or
- (g) any withholding of information by the Company from the Underwriters of information of material nature which is required to be disclosed pursuant to the Underwriting Agreement which in the opinion of the Underwriters, would have or can be reasonably be expected to have, a material adverse effect on the business or operations of the Company.

Upon the delivery of such notice referred to in Clause 13.1 of the Underwriting Agreement by the Underwriters, the following shall take place within seventy-two (72) hours of the receipt of such notice:

- (a) the Company shall make payment of the underwriting commission to the Underwriters; and

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- (b) each party shall return all other moneys (in the case of the Underwriters, after deducting the underwriting commission due and owing to the Underwriters hereunder) paid to the other under the Underwriting Agreement (except for monies paid by the Company for the payment of the expenses as provided hereunder);

and thereafter, the Underwriting Agreement shall become null and void and of no further force and effect and none of the parties shall have a claim against the other save and except in respect of any antecedent breaches.

The Underwriters and the Company may confer with a view to deferring the Public Issue or amending its terms or the terms of the Underwriting Agreement and enter into a new Underwriting Agreement accordingly, but neither the Underwriters nor the Company shall be under any obligation to make a fresh agreement.

### 2.10 Proposed Utilisation Of Proceeds

The Rights Issue and Public Issue are expected to raise gross proceeds of RM9,097,524 and RM13,260,000 respectively and shall be accrued entirely to KST. The estimated RM1,600,000 in respect of expenses and fees incidental to the listing of and quotation for the entire issued and paid-up share capital of KST on the Second Board of the MSEB, inclusive of underwriting and brokerage commission, shall be borne by the Company.

There is no minimum subscription to be raised from the Public Issue, as the Public Issue Shares are fully underwritten.

The total gross proceeds from the Rights Issue and Public Issue totaling RM22,357,524 will be utilised by the KST Group in the following manner:

	Notes	Proposed timeframe to complete utilisation (months)	RM '000
Repayment of bank borrowings and hire purchase facilities	(i)	3	5,462
Financing of tubular and drilling equipment	(ii)	24	10,000
Financing of new and/ or renovation of existing office space	(iii)	12	1,200
Working capital	(iv)	24	4,096
Estimated listing expenses	(v)	3	1,600
			22,358

Please refer to the Proforma Consolidated Balance Sheets as at 31 July 2003 in Section 10.12 of this Prospectus for the financial impact of the utilisation of proceeds.

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### Notes:

- i) *The Group intends to repay the KST's borrowings with part of the gross proceeds from the Rights Issue and Public Issue as follows:*

<b>Lender</b>	<b>Facility (Amount Granted)</b>	<b>Interest rate</b>	<b>Amount outstanding as at 31/7/03 RM</b>	<b>Proposed repayment RM</b>
Hong Leong Finance Berhad	Industrial Hire Purchase (RM1.19 million)	5.4% flat rate x 2 years	443,594	381,196
Aseam Credit Sdn Bhd	Industrial Hire Purchase (RM3.9 million)	5.5% flat rate x 2 years	1,337,748	1,337,748
Malayan Banking Berhad	Term Loan (i) RM3.7 million (ii) RM1.2 million	BLR+2% 6.5% flat rate	3,573,420	3,485,284
Hong Leong Finance Berhad	Hire Purchase of Motor Vehicles	5% x 3 years	55,581	48,178
EON Bank Berhad	Term Loan (RM0.25 million)	BLR+2.0%	164,737	162,479
Orix Credit Malaysia Sdn. Bhd.	Hire Purchase of Motor Vehicle	4.0% x 2 years	46,442	46,442
Mayban Finance Berhad	Hire Purchase of Motor Vehicle	5.9% x 3 years	1,423	1,279
			<b>5,622,945</b>	<b>5,462,606</b>

*The repayment of the Group's borrowings is expected to contribute positively towards reducing the overall interest costs of the Group, and hence, improve earnings in future.*

*Interest savings for 2003 estimated to be nil whilst for 2004, the interest savings forecasted to be RM700,291.*

- ii) *In line with the Group's strategic plan to expand its services to the Middle East, Africa and the Asian region, the Company is currently bidding for tubular running and equipment maintenance work in Bahrain and Vietnam, at the concessions owned by Petronas Carigali Sdn Bhd ("PCSB")*
- iii) *An amount of RM1.2 million of the proceeds will be utilised to finance the entire renovation of the existing office building.*
- iv) *Part of the proceeds from the Rights Issue and Public Issue of approximately RM4.096 million will be utilised to finance the working capital requirements of the Group.*

*Working capital is for the purchase of consumable materials, hiring and upkeep of equipment and to finance the daily operating expenses so as to minimize the external borrowing requirements whilst the Group continue to strengthen its cash flow position. This will enable the group to finance its working capital requirements from its operating reserves and hence, to enjoy interest savings.*



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v) *The details of the estimated listing expenses are as follows:*

	<b>RM</b>
<i>Professional Fees and Charges</i>	<i>675,000</i>
<i>SC fees</i>	<i>71,000</i>
<i>SC registration fee</i>	<i>5,000</i>
<i>MSEB initial and annual listing fees</i>	<i>8,000</i>
<i>ROC lodgement Fee</i>	<i>500</i>
<i>Estimated Printing of Prospectus, application forms, envelopes and share certificates</i>	<i>100,000</i>
<i>Advertising expenses for prospectus, application forms and envelopes and public relation</i>	<i>100,000</i>
<i>Estimated issuing house and registrar's fee</i>	<i>150,000</i>
<i>Underwriting commission and placement fees</i>	<i>265,200</i>
<i>Brokerage fees</i>	<i>52,000</i>
<i>Others/Contingencies</i>	<i>173,300</i>
<i>Total</i>	<u><i>1,600,000</i></u>

The impact of the utilisation of proceeds on the financial position of KST are disclosed in Section 1.5 and Section 10.12 of this Prospectus.

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### 3. RISK FACTORS

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Applicants for the Public Issue Shares should carefully consider the following (which may not be exhaustive) in addition to the other information contained elsewhere in this Prospectus, before applying for the Public Issue Shares.

#### 3.1 No Prior Market For KST's Shares

Prior to this Public Issue, there has been no public market for KST's shares. There can be no assurance that an active market for KST's shares will develop upon its listing on the Second Board of the MSEB or, if developed, that such market will be sustained. The Issue Price of RM1.30 for the Public Issue Shares has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and conditions, its prospects and the prospects for the industry in which the Group operates, the management of the Group, the net tangible asset of the Group, the market prices for shares of companies engaged in businesses similar to that of the Group and the prevailing market conditions at the time of application to the SC for the listing of KST shares.

There can be no assurance that the Issue Price will correspond to the price at which KST's shares will trade on the Second Board of the MSEB upon or subsequent to its listing or that an active market for KST's shares will develop and continue upon or subsequent to its listing.

#### 3.2 Business Risks

The oilfield services industry in which the KST Group operates is dependent on the growth and prospect of the oil and gas industry. As such, the KST Group is subject to certain risks inherent in these industries. Some of the factors that may have a material effect on the Group are as follows:

##### 3.2.1 Market Risks

The local oil and gas industry in Malaysia is currently a net exporter, and is susceptible to the fluctuation in crude oil prices and demand for petroleum products. As oil prices are dictated by the global market forces, the economic climate in the foreign markets and the development in the local economy are important factors in determining the growth prospect of these industries.

Despite signs of a pickup in economic activities in the emerging market in Asia since the beginning of 2002, the outlook remains highly dependent on external developments, including the pace of economic recovery in the United States and Europe. Whilst the KST Group may find favour in the possibility of sharp increase in oil prices precipitated by deterioration in the Middle East security situation, a significant downward movement in oil prices may slow down the drilling activities.

The Group is confident that it is able to position itself and adapt its business strategies in accordance to and to capitalise on the prevailing economic and market conditions.

##### 3.2.2 Availability of Oil Reserves

Malaysia contains oil reserves of 4.54 billion barrels (including condensates) as at January 2003, up from 4.24 billion barrels in 2002. This increase in crude oil was the result of new discoveries following continued investments in the nation's upstream sector. The average life for Malaysia's oil reserves is now 18 years compared to 17 years in 2002. Natural gas reserves in Malaysia stood at 89.0 tcf as at January 2003 – an increase from 87.5 tcf in 2002 and is approximately three times the size of crude oil and condensates reserves. The average life for gas reserves is now 35 years as compared to 34 years in 2002. This extension in the average reserve life is particularly noteworthy as it indicates the success of exploration and reserve replenishment efforts in adding and replacing domestic reserves over and above production requirements.

### 3. RISK FACTORS *(Cont'd)*

The availability of reserves will inevitably affect the long-term growth of the oil and gas industry, including its supporting sub-sectors. However, the development of new and improved technologies to accommodate development in deeper water, to increase recoverable reserves from existing oil fields, and for exploration and discovery of new fields will boost the existing reserves. In addition, PCSB's international oil exploration and production strategy also augurs well for the KST Group's future plans to expand its operations to overseas market by way of strategic alliance with other oil and gas service providers.

*(Extracted from Independent Market Research Report by ACNielsen (Malaysia) Sdn Bhd)*

#### 3.2.3 Availability of Supplies/ Raw Materials

The KST Group sources its major equipment and machineries from multiple overseas suppliers, whilst certain modifications are carried out locally to suit the domestic conditions. As such, the Group is not dependent on any single supplier for its procurements of equipment and machineries. Nevertheless, a good relationship with major overseas suppliers has been established throughout the years of trading relationship, which range from five to ten years. As such, the Group has been enjoying reliable supplies both in terms of quality as well as timely delivery.

Raw materials are mainly consumable items, and are readily available locally. Many of those local agents that represent foreign manufacturers carry sufficient inventory at their warehouses. This mitigates the risk of possible stock-out.

Nonetheless, no assurance can be given that any significant changes in supply and pricing of equipment and machineries and raw materials will not affect the future profitability of the Group.

#### 3.2.4 Availability of Skilled Workers

Knowledge of and expertise in the industrial technology is crucial to the operation of the business. Besides, the necessary skills to perform tubular running and handling, as well as maintenance services takes at least three years to acquire. As the oilfield services industry tends to be labour intensive, the need for skilled workers coupled with the tight labour market pose a challenge to many companies in sourcing quality personnel in the oil and gas industry.

The KST Group had a relatively stable workforce over the years with a low staff turnover. This is owing to the Group's commitment to provide its personnel with the opportunity for training and career advancement, as it believes that people are the most valuable assets of the Group. In addition, the Group continuously tries to enhance productivity via technology and back-office improvements to further mitigate the risk of labour shortage.

#### 3.2.5 Economic, Political And Regulatory Risks

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

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

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### 3. RISK FACTORS *(Cont'd)*

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#### 3.3 Financial Risks

It is inherent in any business that faces possible limitations in its growth and its operating and financial flexibilities arising from the business's borrowings and non-recoverability of outstanding debts.

Significant fluctuation in the domestic interest rates would affect the financial performance of the Group, as working capital requirements and capital expenditures are financed in part by borrowings and industrial hire purchase respectively. Total banking facilities of the Group was approximately RM13.5 million as at 31 July 2003, out of which approximately RM5.7 million is still outstanding, whilst industrial hire purchase stood at approximately RM1.8 million as at 31 July 2003.

With the proceeds to be raised from the listing exercise, approximately RM5.5 million will be utilised for repayment of the banking and industrial hire-purchase facilities. The Directors of KST are of the opinion that after taking into account the cash flow estimate and forecast, available banking and industrial hire purchase facilities and gross proceeds from the Rights Issue and Public Issue, the Group will have adequate funds to meet its current and immediate working capital and capital expenditure requirements.

Presently, the KST Group is not exposed to the risk of material bad debts, as the oil and gas operators have been prompt in meeting their financial commitments to their contractors and sub-contractors.

#### 3.4 Foreign Exchange Risks

The Group's imported equipment and machinery comprises approximately 70% of the Group's total purchases for the financial year ended 31 December 2002. During the financial period ended 31 July 2003, there has been no significant imported equipment purchased. Due to the Group's purchases in foreign currencies, mainly in USD, it is therefore subject to foreign exchange fluctuations. The fixed exchange rate of the USD at RM3.80/USD1.00 imposed by the Malaysian government on 1 September 1998 mitigates the foreign exchange risk. However, there can be no assurance that the exchange rate peg will remain or that further foreign exchange fluctuations of the other foreign currencies will not adversely affect the Group.

#### 3.5 Licenses and Registrations

The Group's qualification to tender for and secure various projects in Malaysia is based on the licenses and registrations set out in Section 4.4.4 of this Prospectus. All of these licenses and registrations are valid for only a specific period of time with renewal based on the Group's compliance with those requirements imposed by the relevant parties. There is no assurance that these licenses and registrations will be renewed when they expire. The Group, however, will continue to ensure that it is in compliance with the requirements at all times, and is confident about the on-going renewals, as there have been no instances of failure to obtain the renewals in the past.

#### 3.6 Competition

The oilfield services industry in Malaysia requires prodigious amount of start-up cost, as is the case with the upstream oil and gas industry. This support sub-sector, also has moderately high barriers to entry in terms of initial capital outlay, technical know-how, skilled workforce and the requirements for licences and registrations.

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### 3. RISK FACTORS *(Cont'd)*

There are only a handful of companies in Malaysia offering tubular handling equipment and running services due to the high barriers to entry detailed in Section 4.4.6 of this Prospectus. Whilst new entrants to the supporting industries may find the domestic market difficult to penetrate, the Group is not insulated from competition from the existing foreign oilfield service providers. The Group, however, has several competitive advantages over its foreign rival companies in that it is the only Malaysian Company operating Oil Country Tubular Goods ("OCTG") maintenance, inspection and Non-Destructive Test ("NDT") services with accreditation to ISO 9002: 1994, and hence, stands to benefit from the Malaysian Government's encouragement to foreign oil and gas operators to utilise Malaysian subcontractors. In addition, its strong customer relationship orientation and its ability to provide a "one stop service" (e.g. the provision of drill pipes inspection, hardbanding, repair and storage) provide it with an added advantage over its competitors.

Similarly, the KST Group would be facing relatively high barriers to entry, namely the high start-up cost and the lack of local presence, in penetrating the local market of the countries at which the Group is targeting. In this respect, the KST Group would seek to participate in PCSB's overseas ventures, which could subsequently lead to the provision of its services to PCSB's activities in these overseas locations.

The KST Group has fared well in competing with the foreign service providers in providing similar services to the Malaysian market, which saw strong historical track records of the Group for the past five years.

#### 3.7 Dependence On Key Personnel

The Group believes that its continued success will depend to a certain extent upon the abilities and continued efforts of its Directors and senior management. To ensure smooth succession planning, efforts have been made by the Directors to promote long-term commitment among its key personnel through incentives and the opportunities for career development within the Group. The loss of any of the Group's Executive Directors or key members of the senior management may affect the Group's performance in the short term. The Group's future success will also depend upon its ability to attract and retain skilled personnel.

Currently, the operations of the Group are managed by Encik Mohammad bin Ayob (Managing Director) and two Executive Directors, namely, Dato' Chee Peck Kiat and Mr Wee Khen Peng. In addition to these executive directors, the Group are also grooming up a pool of key personnel (as disclosed in Section 5.4 of this prospectus), who have many years of working experience in the oil and gas industry, to take over the operations of the Group in the future.

#### 3.8 Dependence On Oil and Gas Operators

KST Group is in the oilfield services and equipment supply industry, which is a sub-sector of the oil and gas industry. Whilst the oilfield services industry is dependent on the upstream oil and gas industry, this supporting industry is essential to the upstream oil and gas operations, as its services are integral to the drilling of oil and gas wells.

Under the terms of Petroleum Development Act of 1974, PETRONAS is the sole entity with legal title to the Malaysian crude oil and gas deposits. Any foreign investment in the upstream oil and gas industry takes the form of PSC with PETRONAS.

The Group has established a good working relationship with the oil and gas operators and has earned itself a good reputation for its reliable and quality services. To further mitigate the risk of dependence on the domestic oil and gas operators, the Group has embarked on its marketing activities to expand overseas. Further details are set out in Section 4.9 of this Prospectus.

### 3. RISK FACTORS *(Cont'd)*

#### 3.9 Ownership And Control Of The Group

Upon completion of the Public Issue, the controlling shareholders of KST are Dato' Dr Abdul Razak bin Abdul, Mohammad bin Ayob and Dato' Chee Peck Kiat @ Chee Peck Jan. Collectively, they control 74.5% of KST (please refer to Section 5.1 of this Prospectus). As such, these controlling shareholders of KST will be able to control the outcome of certain matters requiring the votes of the Company's shareholders unless they are required to abstain from voting and deliberating by law and/or the relevant authorities.

#### 3.10 Fluctuation In World Prices Of Oil

The services of the KST Group are highly dependent on development and production in the oil and gas industry, which in turn is highly or almost perfectly inelastic. This means that a small rise in the price of oil will not change the quantity demanded significantly because oil is an essential commodity for which there are currently no economically viable substitutes and thus, for which there is always a minimum level of demand.

It is however, noted that the oil and gas industry is especially vulnerable to downward movements in oil prices. Production will tend to slow down when prices fall to a level where such activities are not commercially viable for oil and gas operators. Consequently, during periods of upward movements in oil prices, one can normally see an increase in the production activities of this industry.

#### 3.11 Insurable Risks

The KST Group is aware of the adverse consequence arising from inadequate insurance coverage that could affect its business operation. In ensuring such risks are maintained to the minimum, the Group reviews and ensures adequate coverage for its assets on a continuous basis.

The Group has existing "All Risk Insurance" and "Marine Cargo Insurance" for all its equipment and machineries including those located offshore. As an additional safety measure, the Group endeavours to have minimal value of equipment and machineries stored in the Group's bases. These equipment and machineries are normally used offshore and will only be recalled or brought back onshore for periodic repairs and maintenance works. The Group would normally renew all the respective insurance policies before these policies expire. On a periodic basis, the Group will review their insurance policies to ensure adequacy of insurance coverage for the Group's assets, both onshore and offshore.

For the Group's operations, all assets such as plants and machinery, consumable materials, office buildings and motor vehicles are sufficiently insured under All Risk Insurance, Marine Cargo and fire and lightning insurance as disclosed in section 15.11 of this Prospectus.

#### 3.12 Stability of Revenue

The Group's services are essential to upstream oil and gas operators as they are integral to the drilling of oil and gas wells. The demand for such services is neither seasonal nor cyclical. As long as oil and gas companies continue to explore and develop oil and gas fields, such services provided by the Group will be needed. The elasticity of demand depends largely on the demand of oil and gas by the major industrial nations, and the price of oil and gas in the international market.

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**3. RISK FACTORS (Cont'd)**

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**3.13 Restrictive Covenants Under Borrowing Facility Agreements**

The KST Group, pursuant to credit facility agreements entered into by the Company and its subsidiary with banks or financiers, is bound by certain positive and negative covenants, which may limit the Company's operating and financial flexibility. The aforesaid covenants are of a nature which are commonly contained in credit facility agreements in Malaysia and any act by the Company falling within the ambit or scope of such covenants may give rise to a right by the bank/financier to terminate the relevant credit facility and/or enforce any security granted in relation to that credit facility. The Board of Directors are aware of such covenants and have taken and shall continue to take all precautions necessary to prevent any such breach.

**3.14 Termination of Contracts**

Depending on the terms of the agreements entered into between KST, ST and its customers, there are termination clauses which allow for KST's and ST's customers to terminate the agreements with KST and ST by providing notice in writing to KST and ST. Notwithstanding that KST and ST have not breached any terms in the agreements, the agreements can be terminated at the sole discretion of the customers by giving 14 days prior notice. In addition, there are clauses in some of the agreements which allow for suspension of services provided by KST and ST, at any time at the option of the customers. However, since the KST Group started operations in this industry, there has been no experience of such premature termination of the agreements.

**3.15 Technological Change**

The oil and gas industry promotes and embraces the development of advance technologies to improve and enhance the exploration and development activities. However, the equipment and machinery used in the tubular handling and running as well as the tubular inspection and maintenance services have gone through little change over the last few years. All the new technological developments originate from the equipment manufacturers. The Group's personnel are trained by the manufacturers upon purchase of such equipment.

**3.16 Disclosure Regarding Forward-Looking Statements**

This Prospectus contains several forward-looking statements, that is, those other than statements of historical facts. Although the Group believes that the expectations reflected in such statements are reasonable at the time this Prospectus is issued, there can be no assurance that such expectations will prove to have been correct. Any differences in the expectations of the Group from its actual performance may result in the Group's financial and business performance and plans to be materially different from those anticipated.

**3.17 Dependence On Principal Products And Major Customers**

The supply of tubular handling equipment and services to the oil and gas industry by KST represents the core business activity and main contributor to the Group's profits. Consequently, the main customers of KST group are PCSB, EMEPMI and Talisman Malaysia Limited ("Talisman"). The provision of tubular handling equipment and services to these customers account for an aggregate of approximately 83% of the Group's total turnover for the financial period ended 31 July 2003.

The supply of tubular handling equipment and services to the PSCs is carried out in accordance with the drilling schedules specified by each PSC. The current drilling cycle is for a fixed primary period of four years up to mid-2004, with the PSCs having the option to extend their respective contracts for a further period of one year plus thereafter.

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

**3. RISK FACTORS (Cont'd)**

However, KST has been actively involved in the provision of tubular handling equipment and services since 1985, and to date, has not breached any terms which has resulted in the termination of any of its projects with the PSCs. Further, KST has maintained good performance records with the PSCs, and the stringent quality control procedures implemented throughout its operations ensures that its products and services conform to the high standards expected by its customers. As such, in view that the PSCs have in the past chosen to exercise their extension option for the remaining two years, and based on KST's current performance under these contracts, KST is confident that the PSCs would exercise the extension option.

Notwithstanding the above, in an effort to sustain its core business activity and to reduce its dependence on the two main PSCs, namely PCSB and EMEPMI, KST has participated in several tender exercises by other potential customers, both domestically and internationally.

**3.18 Risk Management Plans and Practices**

As disclosed in 3.11 above, the KST Group has adequate insurance policies with licenced insurance companies in Malaysia, which provide comprehensive coverage against material damage to its assets like property, machinery and equipment, goods-in-transit and group accident as a result of explosions, fire and natural disasters. Interruption in distribution of power supply will not materially and adversely affect the Group's financial performance as all offshore operations rely on oil and gas operators' power generator respectively.

In addition, the KST Group has established an in-house committee known as the "QHSE" committee, where the committee comprises of members from different management levels. The committee meets every month to discuss and resolve daily safety matters and environmental issues faced by the employees.

The various risks to which KST is exposed in its day-to-day operations and to complement its insurance programme, KST has an emergency response plan ("ERP") to deal with emergencies at its office and operational facilities. The emergency actions cover chemical releases and spillage, fire, power outage, crimes, natural disasters, and serious injury or death. The ERP is in accordance with the current local statutes and regulations and is designed to minimize risks and to develop and maintain KST's ability to respond to any interruption in its operations and promptly restore its main business functions.

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