

4. INFORMATION ON THE KST GROUP

4.1 Incorporation, Principal Activities and Group Structure

KST was incorporated in Malaysia on 16 July 1985 under the Act as a private limited company under the name of Intel Paint (M) Sdn Bhd. During the period between 1985 and 1987, the registered principal activities of the Company is to supply and manufacture marine paint. However during that period, the Company was dormant. The Company subsequently changed its name to Kejuruteraan Samudra Timur Sdn Bhd on 16 February 1987. In April 1987, KST commenced its operations in supplying corrosion protection systems, and instrumentation and monitoring equipment. On 16 January 2003 the Company changed its status from a private limited company to a public limited company and assumed its present name. At present, KST is principally involved in the provision of tubular handling equipment and running services to the oil and gas industry.

Details of the subsidiary company are as follows:

Subsidiary Company	Equity Interest Held %	Principal Activities
ST	100.0	Provision of tubular inspection and maintenance services to the oil and gas industry

As at the date of this Prospectus, KST has no associated company and no other subsidiary company.

4.2 Share Capital

The authorised share capital of KST is RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of KST is RM29,800,000 comprising 29,800,000 ordinary shares of RM1.00 each prior to the Public Issue. After the Public Issue, the issued and paid-up share capital will be increased to RM40,000,000 comprising 40,000,000 ordinary shares of RM1.00 each.

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

Date of Allotment	No. Of Ordinary Shares Allotted	Par Value RM	Consideration	Total Issued And Paid-up Share Capital RM
16.07.1985	2	1.00	Subscribers' shares	2
05.08.1987	99,998	1.00	Cash	100,000
28.10.1998	900,000	1.00	Bonus Issue	1,000,000
27.10.2003	15,500,000	1.00	Bonus issue of 15,500,000 ordinary shares of RM1.00 each	16,500,000
28.10.2003	4,635,691	1.00	Shares issued in consideration for the Acquisition of ST	21,135,691
19.01.2004	8,664,309	1.00	Rights issue of 8,664,309 ordinary shares of RM1.00 each at an issue price of RM1.05 per share	29,800,000

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

4.3 Flotation Scheme

In conjunction with and as an integral part of the listing and quotation of KST's entire issued and paid-up share capital on the Second Board of the MSEC, the Company undertook the following corporate exercises which was approved by the FIC, MITI and the SC on 2 May 2003, 11 April 2003 and 29 September 2003 respectively. The details of the corporate exercise are as follows:-

4.3.1 Bonus Issue

Bonus issue of 15,500,000 new ordinary shares of RM1.00 each to the existing shareholders of KST namely Mohammad bin Ayob, Dato' Chee Peck Kiat @ Chee Peck Jan and Dato' Dr. Abdul Razak bin Abdul on the basis of thirty one (31) new ordinary shares of RM1.00 each for every two (2) existing ordinary shares of RM1.00 each held in KST. The Bonus Issue is by way of capitalisation of RM15,500,000 from the unappropriated profits of the Company as at 31 December 2002.

4.3.2 Acquisition of ST

On 17 February 2003, KST as purchaser, and Mohammad Bin Ayob, Dato Chee Peck Kiat @ Chee Peck Jan and Dato' Dr Abdul Razak Bin Abdul as vendors, entered into a Conditional Sale and Purchase Agreement to acquire the entire issued and paid-up share capital of ST comprising 1,000,000 ordinary shares of RM1.00 each for a total consideration of RM5,099,260 satisfied by the allotment and issue of 4,635,691 new ordinary shares of RM1.00 each in KST at an issue price of RM1.10 per new ordinary share.

The purchase consideration for the Acquisition of ST was arrived at on a willing buyer willing seller basis after taking into consideration the adjusted audited NTA of ST of RM5,099,260 or approximately RM5.10 per share as at 31 December 2002.

The Acquisition of ST was completed on 31 October 2003.

The shareholding structure of ST before the Acquisition of ST is as follows:

Vendors	No. Of Ordinary Shares Of RM1.00 each Held In ST	
Mohammad bin Ayob	500,000	50%
Dato' Chee Peck Kiat @ Chee Peck Jan	290,000	29%
Dato' Dr. Abdul Razak bin Abdul	210,000	21%
	1,000,000	100%

The number of KST Shares issued to the vendors of ST after the Acquisition of ST is as follows:

Vendors	No. Of Ordinary Shares Of RM1.00 Each In KST Issued Pursuant To The Acquisition of ST	
Mohammad bin Ayob	2,317,846	50%
Dato' Chee Peck Kiat @ Chee Peck Jan	1,344,350	29%
Dato' Dr Abdul Razak bin Abdul	973,495	21%
	4,635,691	100%

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

4.3.3 Rights Issue

Following the completion of the Bonus Issue and the Acquisition of ST, KST undertook a rights issue of 8,664,309 new ordinary shares of RM1.00 each on the basis of approximately two (2) new ordinary shares for every five (5) existing ordinary shares held after the Bonus Issue and Acquisition of ST at the issue price of RM1.05 each payable in full upon application.

4.3.4 Public Issue

To facilitate the listing of and quotation for KST's shares on the Second Board of the MSEB, the Company will make a Public Issue of 10,200,000 new ordinary shares of RM1.00 each at an issue price of RM1.30 per new ordinary share.

Details of the Public Issue are set out in Section 2.6 of this Prospectus.

4.4 Business Overview Of The KST Group**4.4.1 History and Business Activities**

The KST Group comprises KST and its subsidiary, ST. The Group is mainly involved in tubular handling equipment and running services, as well as tubular inspection and maintenance services for companies in the upstream oil and gas industry.

KST provides services to ensure that tubulars are installed in the drilled oil and gas wells according to their respective specifications. ST complements the services offered by KST by providing tubular inspection and testing of tubular and drill pipes and down hole tools to ensure that the threads and critical areas are free from defects and are in accordance to the API specifications.

KST was incorporated in Malaysia on 16 July 1985 under the Act as a private limited company under the name of Intel Paint (M) Sdn Bhd. The Company changed its name to Kejuruteraan Samudra Timur Sdn Bhd on 16 February 1987. KST's business began with the supply of corrosion protection systems and instrumentation and monitoring equipment. In 1991, KST expanded its business to include the supply of drilling equipment and materials and the provision of services and maintenance of various kinds of valves (e.g. ball, butterfly, choke and submersible valves and Christmas trees) for the oil and gas industry. It simultaneously began providing tubular handling equipment and running services and subassembly completion make-up services, which are currently KST's principal activity. The Company established a machine shop at the Jakar Industrial Estate in Kemaman, Terengganu in 1998 for the purpose of providing engineering services to the Group and to contractors operating at the Kemaman Supply Base.

ST was incorporated in Malaysia on 3 March 1983 as a private limited company under the Act. In the earlier years, ST's core business was in the trading and supplying of oil tools, spare parts and drill bits to companies in the oil and gas industry. ST also acted as an agent for drilling rigs, chemical and industrial products that were exclusively used in the oil industry. In the 1990s, ST extended its business to include testing and tubular inspection and maintenance services for companies in the oil and gas industry. ST set up two plants in 1996 at the Kemaman Supply Base, Kemaman, Terengganu and the Asian Supply Base, Labuan, Sabah. These plants provide services for OCTG maintenance complete with grit-blasting, coating and inspection facilities. It also provides a 4-function logging system to ascertain the integrity of tubulars.

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

The operation centres of KST and ST are located at the Kemaman Supply Base in Kemaman, Terengganu, Asian Supply Base in Labuan, Wilayah Persekutuan Labuan and Jakar Industrial Estate, Kemaman, Terengganu. The Kemaman Supply Base provides the Group's principal business activities in the provision of tubular handling equipment and running services and tubular inspection and maintenance services, as well as supplies machinery and equipment, to the upstream oil and gas industry. All personnel and equipment are mobilised from this base to various offshore locations.

The Kemaman Supply Base is a strategic base dedicated to offshore oil and gas development. It serves as a one-stop centre for the industry by providing integrated oil and gas facilities and services. The KST Group is one of the many companies offering support services to the five (5) oil and gas operators, which operate on average, around thirty six (36) platforms off the coast of Kemaman.

The Asian Supply Base in Labuan and the workshop at the Jakar Industrial Estate both provide secondary services. While the former provides logistics support for equipment and services for the East Malaysian operations, the latter offers back-up machining and repair services for the Group's operations.

4.4.2 Principal Products And Services

The KST Group is mainly involved in the provision of tubular handling equipment and running services as well as tubular inspection and maintenance services for companies in the upstream oil and gas industry.

KST services ensure that tubulars are installed in the oil and gas wells according to their respective specifications. Its range of casing includes sizes (diameters) of 7", 9 ⁵/₈", 10 ³/₄", 13 ³/₈", 16", 18 ⁵/₈" and 20". KST also provides tubing services, which are essentially tubings that run inside the casings in the oil and gas wells. These tubing varies in sizes, with diameters of 2 ³/₈", 2 ⁷/₈", 3 ¹/₂", 4 ¹/₂", 5" and 5 ¹/₂".

ST complements the services offered by KST by providing inspection and testing of tubulars and drill pipes and down hole tools to ensure that the threads and critical areas are free from defects and are in accordance to the API specifications.

The primary activities in tubular inspection and maintenance services include cleaning, blasting and coating of the pipes. Pipe inspection services range from visual inspection to the more scientific approaches of electronic and magnetic particle inspections.

In terms of contribution, the Group's principal service area of tubular handling equipment and running services is the largest contributor to the Group's turnover, with an average contribution of 70% between 1998 and 2001. ST's tubular and drill pipe inspection services is the other revenue contributor to the Group, with an average contribution of 30%.

The Group's services are essential to upstream oil and gas operators as they are an integral part to the drilling of oil and gas wells. 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.

Raw materials which consist of consumable items such as plastic, teflon, aluminium, nylon and steel sheets, are readily available locally. There are many local agents representing foreign manufacturers with sufficient inventory in their warehouses to fulfil KST's requirements as and when there may be required.

For further explanation on KST's major suppliers, please refer to Section 4.8 of this Prospectus.

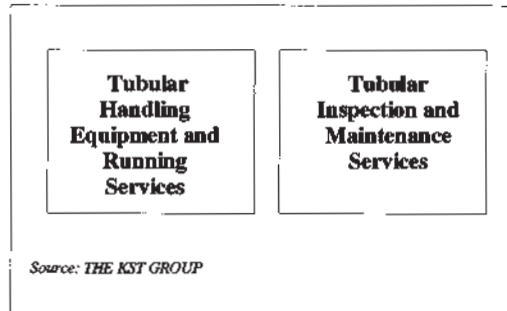
4. INFORMATION ON THE KST GROUP (Cont'd)

4.4.3 Operation Process

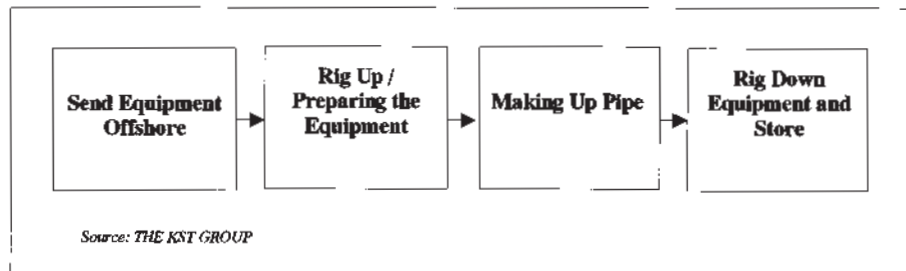
The activities of the KST Group can generally be categorised into two areas, namely:

- (a) tubular handling equipment and running services, and
- (b) tubular inspection and maintenance services.

An overview of these activities is illustrated as follows:



4.4.3.1 Processes Relating to Tubular Handling and Running Services



(i) **Send the Equipment Offshore**

The equipment will be sent to respective location when the contract is awarded. The majority of equipment will remain on the location throughout the contract period.

(ii) **Rig Up / Preparing the Equipment**

This is a process of rigging up the equipment, making up the necessary connection of power and hydraulic sources.

(iii) **Making Up Pipe**

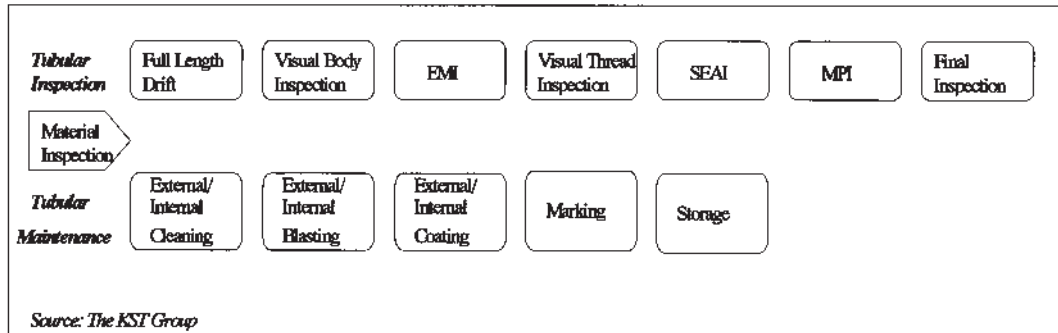
The process is where the main work is involved. The equipment is used to tighten / make up the tubular to their respective recommended tightness. Tubulars will be run in hole until the required depth of the well as per the drilling programme.

(iv) **Rig Down Equipment and Store**

When the work has been completed, the equipment will be rigged down and demobilised and sent back to KST premises onshore.

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4.4.3.2 Processes Relating to Tubular Inspection and Maintenance Services



(a) **Material Inspection**

All materials purchased by the Group for the purpose of carrying out services to customers, as well as incoming materials from the customers, are subject to uniform testing and inspection for conformity to description, specifications and quantity.

(b) **Tubular Inspection**

i. **Full Length Drift**

This is a uniform method to determine the correct internal diameter as per pipe description and to detect inside diameter reduction. This procedure describes the minimum requirements for full length drifting in used and new casings, tubings, pup joints and connectors having specified outside diameters ranging from 1.050 to 20 inches.

ii. **Visual Body Inspection**

The internal and external bodies of pipes are visually inspected for defects and imperfections. This procedure covers the full length of the pipe, both internally and externally, but excludes the threaded areas.

iii. **Electromagnetic Inspection ("EMI")**

A scientific method of investigating pipe imperfections that are not detected visually. This inspection provides permanent records for each individual pipe. This procedure provides the minimum requirements to be followed when performing electromagnetic inspections using a single pass 4-function non-destructive testing system.

iv. **Visual Thread Inspection**

The thread conditions for pin and box are visually inspected. This procedure covers the minimum threaded areas for both pin and box as required by API RP 5A5 or by manufacturer's requirement.

v. **Special End Area Inspection ("SEAI")**

The end areas of pipes are uniformly inspected. This inspection service covers both transverse and longitudinal imperfections on the internal and external surfaces of the end areas of pipes.

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

vi. **Magnetic Particle Inspection ("MPI")**

Uniform inspection for surface defects on pipe bodies and welded areas of tubulars. This procedure describes the minimum requirement for magnetic particle inspection using alternative current ("AC") or direct current ("DC") yoke and on areas not covered by special end area inspection.

vii. **Final Inspection**

Final visual inspection of pipe condition before delivery to the customer. This procedure covers all pipes and couplings.

(c) **Tubular Maintenance**

i. **External / Internal Cleaning**

Rust and other foreign material on internal and external pipe surfaces are uniformly cleaned to provide sufficient bondage. This procedure covers the full length of the pipe, but excludes the threaded areas.

ii. **External / Internal Blasting**

The internal and external pipe surfaces are cleaned further by using steel shot blasting or garnet blasting. This procedure covers new and used tubing, casing and pup joints.

iii. **External / Internal Coating**

The pipes are protected from rust by applying appropriate coating materials. This procedure covers the full length of the pipe, both internally and externally, but excludes the threaded areas.

iv. **Marking**

Identifying the pipes.

v. **Storage**

Store until the next job.

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

4.4.4 Approvals, Major Licences and Permits

The KST Group has obtained licenses and registrations to participate in projects sponsored by various government bodies and private organizations, with the key ones being PETRONAS, MOF and the CIDB.

The table below highlights the major licenses and registrations for the Group.

Issuing Party	License	Expiry Date	Purpose
CIDB	<ul style="list-style-type: none"> ▪ Contractor Registration <ul style="list-style-type: none"> • 1000105-SL054886 • 1970626-SL037557 	<ul style="list-style-type: none"> • 4 Jan 2006 • 26 June 2006 	To be eligible for participation in CIDB projects with contract value not exceeding RM1million and RM5million respectively.
MOF	<ul style="list-style-type: none"> ▪ Contractor Registration <ul style="list-style-type: none"> • 357-00039932 	<ul style="list-style-type: none"> • 21 Feb 2006 	To be eligible for submission of tenders for MOF projects.
PETRONAS	<ul style="list-style-type: none"> ▪ Supplier License <ul style="list-style-type: none"> • L-142241-X • L-98211-X 	<ul style="list-style-type: none"> • 30 June 2004 • 15 Mar 2004 	To supply equipment and services to oil and gas exploration and production companies in Malaysia
Atomic Energy Licensing Board	<ul style="list-style-type: none"> ▪ Radioactive License <ul style="list-style-type: none"> • LPTA/A/523 	<ul style="list-style-type: none"> • 15 Oct 2005 	To purchase, own, use, possess, operate, store, transport and trade (import and export) in radioactive substances.

For further information on the salient terms of the above licences including other licences, please refer to Section 7.2 of this Prospectus.

The oil and gas industry is highly regulated where organisations supplying services similar to KST must be licensed by PETRONAS and MOF. As such, the Group places high dependence on these licences. Thus, revocation or non-renewal of licences would serve as a threat to organisations within the oil and gas industry comprising the licensees, including the Group.

Despite this, clauses for revocation and non-renewal are set out by the relevant authorities, namely PETRONAS, MOF and CIDB. As long as the licensees within the oil and gas industry comply with all requirements as well as exercise corporate citizenship, their licences would not be unreasonably revoked or not renewed. As such, the threat from revocation or non-renewal is mitigated by strict compliance with the licensing terms and conditions. Historically, the Group has never experienced any instances where their licences were not renewed.

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

4.4.5 Principal Market and Market Share

The Group's principal market currently lies in Malaysia, providing services to drilling activities off the coast of West and East Malaysia to the major oil and gas operators in the country. Its current market share in the tubular handling equipment and running services is approximately 40%, based on the number of oilrigs it currently serves in relation to the 20 oilrigs in operation in Malaysia as at 31 December 2003.

List of oilrigs in Malaysia currently serviced by the KST Group as at 31 December 2003:

Name of Operator	Name of Rig	Type of Activities	Location
PCSB	Harkuyu III	Oil Exploration	West Malaysia
	Stena Clyde	Oil Exploration	West Malaysia
	Tender 3	Oil Production and Exploration	West Malaysia
	Piranha	Gas Development and Production	East Malaysia
	Atwood Beacon	Oil Development	West Malaysia
Talisman	Harvey Ward	Oil Development and Production	West Malaysia
	Roger Mowell	Oil Production	West Malaysia
	Key Gibraltar	Oil Production	West Malaysia

The Group has plans to increase its forays into overseas markets in search of new business opportunities from 2004 onwards, potentially expanding its services to areas in the Middle East, Africa and the Asian region. Revenue earned from PCSB represents around 34% of the Group's total revenue based on financial period ended 31 July 2003, thus PCSB remains an important client. Likewise, PCSB relies on the support services provided by the overseas services providers. Currently, the KST Group has no overseas ventures with PCSB. However in the future, KST Group plans to offer its services to PCSB and actively participate in PCSB's overseas ventures.

Depleting petroleum reserves have prompted PCSB to embark on an international exploration and production strategy. For the financial year ended 31 March 2003, PCSB's overall crude oil gross sales volume increased 378.8 million barrels compared to 339.5 million barrels in 2002. Exports and international operations generated RM61.32 billion in revenue, representing just over 75% of the PCSB's revenue. Contributions outside Malaysia amounted to RM24.97 billion, reflecting the growing importance of PETRONAS' international operations. They comprise 39 operations in 21 countries, including Bahrain, Syria, Pakistan, Iran, Morocco, South Africa, China, Vietnam and Myanmar. PCSB has mitigated its risks by venturing abroad in strategic alliance and joint ventures, with some geographical specialization towards Southern Africa, the Persian Gulf States and ASEAN.

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

In the year ended 2003, PCSB continued to make remarkable headway on the international exploration and production front in the last year. The signing of four new PSCs, the procurement of two reconnaissance contracts and the acquisition of interests in 11 exploration and production blocks saw PETRONAS expanding its portfolio of global upstream ventures to 57 in 25 countries. Two new PSCs were signed in Vietnam, one new PSC was secured each in Myanmar and Mozambique and two reconnaissance contracts were signed in Morocco. Interest in exploration blocks were acquired in Indonesia (two blocks), Vietnam, Iran, Algeria, Mauritania, Benin, Togo and Sudan (three blocks). The year also saw the acquisition of interest in two production blocks in Indonesia which represents out first production in that country.

Furthermore, the Group has plans to establish an operations base in the Middle East, in line with PCSB's focus on the Gulf States. This will enable the Group to mobilise its personnel and equipment to work sites in the region more efficiently and economically, besides having the advantage of a "local" presence to market its services to local customers. The target is to have the base fully operational in the medium term.

Further details of the future plans, strategies and prospectus of the Group are set out in Section 4.9 of this Prospectus.

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

4.4.6 Competition**(i) Competitors**

On the domestic front, there are currently only two (2) companies active in Malaysia in tubular handling equipment and running services, these being KST and Weatherford (M) Sdn. Bhd. ("Weatherford Malaysia"),

Weatherford Malaysia is associated with Weatherford International, Inc. ("Weatherford International"), a United States company listed on the New York Stock Exchange. Thus, KST would be seen to be the only local company providing this category of oil and gas services.

Weatherford International is based in Houston, Texas and is a global leader in tubular handling equipment and running services. It is a pioneer in the oilfield service business with over 50 years of experience. It is one of the three big global players in the area of tubular handling and running services.

The other two are BJ Tubular Services (based in Aberdeen, Scotland) and Frank's Casing Crew & Rental Tools, Inc (based in the United States). Both companies previously had presence in Malaysia but have since pulled out of this market due to possible competitive pressures.

Direct competitors in the tubular inspection and maintenance business include DJ Inspection Services (Malaysia) Sdn Bhd and Pesaka Inspection Services Sdn Bhd.

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

The table below summarises the Group's direct competitors for its services in Malaysia.

Company	< -FY Ended 31 December 2001*- >			Principal Activities
	Paid-Up Capital RM'000	Revenue RM'000	PBT RM '000	
<u>TUBULAR HANDLING AND RUNNING SERVICES</u>				
Weatherford Malaysia	6,600	48,191 [^]	(548)	Tubular handling equipment and running services
<u>PIPE INSPECTION SERVICES</u>				
DJ Inspection Services (Malaysia) Sdn Bhd	300	1,266	89	Drill pipe inspection services
Pesaka Inspection Services Sdn Bhd	1,066	2,260	786	To provide specialised inspection services to customers in the petroleum industry

Notes:

[^] Turnover from Weatherford Malaysia includes revenue from activities other than tubular handling and drilling services

* Based on latest publicly available information

(Source: Independent Market Research Report by ACNielsen (Malaysia) Sdn Bhd)

(ii) **Barrier to Entry**

The oilfield services industry in Malaysia require high amount of start-up cost, as is the case with the upstream oil and gas industry, the support sub-sector, nevertheless, has moderately high barriers to entry in terms of initial capital outlay, technical know-how, skilled workforce and the requirements for licences and registrations as well as a good local network of customers to be successful.

Companies intending to break into the tubular handling equipment and running services and tubular inspection and maintenance services industry need to consider the following factors:

1. **High Capital Outlay** may prove prohibitive for new entrants to the business landscape.
2. **Shortage of Skilled / Semi-Skilled Workers.** The necessary skills and knowledge to operate the equipment in performing tubular handling equipment and running services and tubular inspection and maintenance services industry takes at least three years to acquire. In this stage of economic recovery, the tight labour market creates a challenge for many companies to source for such skilled workers.
3. **Competent Management Team** to manage and steer the strategic direction of the business.

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

4. **Competitive Advantage** enjoyed by the existing market players, such as economies of scale brought upon by the existing equipment and infrastructure, established networks in the oil and gas industry and proven track records, will ultimately be realised in additional or long-standing contracts.
5. **Long-Standing Contracts** between the oilfield services providers and the oilfield operators generally runs for a period of three to five years and pose a difficulty for new entrants to penetrate the market.
6. **Reputation and Brand Building.** Long period is required to build reputation and brand name. The long period of time required to establish a track record in terms of building up relationships with the government, customers and suppliers can prove daunting to newcomers in the industry.
7. **Strict Licensing And Registration Requirements.** In order to qualify as a participant in the Malaysian oil and gas industry, companies are required to be either licensed or registered by MOF and PETRONAS. Those requirements and conditions that applicants have to fulfill in order to be licensed or registered can be regarded as potential barriers to entry into the industry, as the requirements are stringent and are strictly adhered into every application.

(iii) Competitive Advantage

The competitive advantages of The KST Group are as follows:

1. It is the only Malaysian Company operating Oil Country Tubular Goods ("OCTG") Maintenance, Inspection and Non-Destructive Test services with accreditation to ISO 9002: 1994. Thus, the client stands to benefit from the Government of Malaysia's encouragement to foreign operators to utilise Malaysian subcontractors. This "Malaysianisation" policy is specifically highlighted in PSCs.
2. Its strong customer relationship orientation and its ability to provide a "one stop service" e.g. the provision of drill pipes inspection, hard-banding, repair and storage, provide it with an added advantage over its competitors.
3. Skilled and dedicated management team, with average of eight (8) years each in the industry. The Managing Director and Senior Management of the company have over twenty (20) years of hands-on experience.
4. In addition, the Group also believes that people are their greatest assets, thus, career development and a conducive working environment plays a key role in ensuring a stable workforce in The KST Group.

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

4.4.7 Research And Development

The equipment and machinery used in tubular handling and running maintenance services have gone through little change over the past few years. Any new technological development originates from the equipment manufacturers, and the Group's personnel are trained by the manufacturers upon purchase of such equipment.

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The KST Group is therefore not involved in the research and development of machinery equipment.

4.4.8 QHSE Controls

The KST Group achieves its quality performance through the active participation of its executive management and the interaction of personnel who are responsible for establishing, implementing, maintaining and managing the current quality standards and practices. The well trained personnel and well maintained equipment are key factors in ensuring reliability, efficiency and optimised maintenance schedule. The Group also adopts a systematic approach to health, safety and environment management to minimise and eradicate any adverse health effects in all its activities.

The QHSE Manager conducts safety and safety meetings for the employees twice a month. It is compulsory for all technical staff to attend such meetings when they are onshore. The stringent safety and health guidelines imposed by the oil operators (such as PCSB, EMEPMI and Sarawak Shell Berhad/ Sabah Shell Petroleum Company Limited ("Shell")) on staff working on their rigs requires that the employees of the Group to be very conscious of safety and health regulations and be very disciplined whilst working on the rigs.

Hence, the Group places great emphasis on the employees especially the technical staff working offshore to be fully aware and practice all safety and health procedures imposed by the oil operators.

As stipulated in the Occupational Safety and Health Act and Regulations 1994 ("OSHA"), it is the duty of the employer to ensure, so far as is practicable, the safety, health and welfare at work of all his employees and failure to comply is an offence and the employer is liable to be fine not exceeding RM50,000 or to imprisonment for a term not exceeding 2 years or both.

Failure of the employees to take reasonable care for the safety and health of himself and others, failure to co-operate with his employer, failure to wear the protective equipment supplied by his employer and failure to comply with any instructions or measures on occupational safety and health instituted by his employer is an offence and liable to a fine not exceeding RM1,000 or to imprisonment for a term not exceeding three months or both.

In another words, both the employer and the employees are to comply with the OSHA and other regulatory requirements as instituted by the local authority and or the government. On the part of the Company, all employees are briefed on the importance of the OSHA & Regulations, Company's QHSE Policy, QHSE performance target and other safety matters on the first day of employment through safety induction course. During the course of employment, employees are given the relevant training to further improve and developed their skill and knowledge to become QHSE competence. A system, QHSE Management System was formulated and implemented to manage QHSE. It is a structured set of controls for managing the business; to ensure and to demonstrate that business objectives are met. It is a systematic and fit for purpose way of managing QHSE risks through personnel, resources, policies and procedures. A formal assessment or audit, highlighting strengths and weaknesses are carried out to ensure employee awareness and compliance. It is not documentation alone but requires the full participation and commitment of everyone in the Company so that a QHSE culture can be developed.

Formal and informal discussions were held, QHSE meeting are conducted on twice monthly basis to discuss, provide information and to gather feedback from employees on QHSE issues. Daily QHSE toolbox briefings are conducted by team leaders prior to start of work to discuss QHSE issues and to ensure that all workers comply with the QHSE requirements.

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All the possible efforts as mentioned above are to ensure, so far is practicable, the safety, health and welfare at work of all its employees and the employees are aware of the importance in adhering to the QHSE requirements.

4.4.9 Interruptions In Business

There have been no interruptions in the KST Group's business during the past twelve (12) months prior to the date of this Prospectus.

4.4.10 Employees

The KST Group is committed to providing its personnel with the opportunity for training and career advancement, as it believes that people are the Group's most valuable assets. It has grown from a 10-person operation in 1989 to its current total staff strength of 119.

As at 15 January 2004, the total number of employees of the KST Group is 119 as illustrated below:

Categories	No. Of Employees	Range of Years In Service
Managerial and Professional	12	1 to 15
Technical and Supervisory	93	1 to 9
Clerical and related occupations (e.g. clerks, typist, stenographers, personal secretaries, etc.)	11	1 to 6
General workers	3	1 to 2
Total	119	

The staff turnover for the Group is below the industry average of 10%. The number of years of service per employee is as follows:

Number of Years	Total Number of Employees	Percentage of Total Workforce (%)
More than 5 years	29	24
4 to 5 Years	8	7
2 to 4 Years	5	4
Less than 2 years	77	65
Total	119	100

Most of the members of the management team have been with the KST Group since the establishment of the Group's business and have a thorough understanding of the business and invaluable experience in the industry. Most of these personnel have weathered the last few global recessions together while managing to sustain profitability and growth throughout. The KST Group's employees do not belong to any labour unions or trade organisations.

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

4.4.11 People Development Programme

All onshore and offshore personnel attend basic training courses at the Terengganu Advanced Technical Institute ("TATI"), the Terengganu Safety Training Centre in Kemaman or the Sribima Maritime Training Centre in Miri, Sarawak. New recruits serve as understudies and are trained on-the-job by their respective chief crew at least a year before they are qualified to handle and operate equipment.

Both internal and external training courses are featured in the Group's people development programme.

4.4.12 Key Achievements, Awards And Recognition

ST received the ISO9002:1994 certification in 1999. The scope of this certification is in relation to its tubular inspection and maintenance services.

KST has been awarded the Excellent Safety Performance by EMEPMI for 7 consecutive years from 1995 to 2001. KST was also recently recognised with a Star Performance Safety award by EMEPMI for their performance in tubular handling.

4.4.13 Marketing Strategies And Distribution Network

(i) Marketing Strategies

The KST Group is on the bidder list of all oil and gas companies operating in Malaysia. Since it is licensed by PETRONAS, all other oil and gas operators are kept informed of the Group services and is usually invited to bid for tenders.

In addition, the Group's technical sales personnel regularly visit existing and potential customers to pitch and update the services available to them at the operation centres.

The Group aims to secure overseas contracts through its existing customers. The Group's continued performance and good track record with these customers would enhance the chances of acquiring overseas contracts as these oil and gas operators have numerous operations internationally. For a start, the Group has already been encouraged by PCSB to participate in its overseas operations.

In addition, the KST Group has the opportunity to capitalise on the Government of Malaysia's strategy to "Malaysianise" products and services, especially those seen as critical to the nation's economy. As part of this strategy, foreign oil and gas operators have been urged by the Government to utilise Malaysian subcontractors for domestic projects. KST Group is in a prime position to reap the benefits of such a policy.

(ii) Distribution Network

The KST Group mobilises its equipment and personnel from its operation centre at the Kemaman Supply Base, Kemaman, Terengganu to various offshore locations in West Malaysia. The Asian Supply Base in Labuan coordinates and facilitates logistics support for operations in East Malaysia.

Transportations to offshore locations are typically provided by the main contractors, i.e. the oil and gas operators.

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

4.4.14 Operating Facilities

(i) Property And Location

List of landed properties of the KST Group is set out in Section 9.1 of this Prospectus.

(ii) Machinery And Equipment

The KST Group's equipment and machinery for tubular handling services is divided into four (4) main categories as follows:

a) Hydraulic Hammer Piling System and 24" - 36" Conductor consist of:

HPH9000 Hydraulic Hammer, 36" - 30" Hinge Casing spiders; 36" - 30" Side Door Elevator; Single Joint; Safety Clamp and manual casing slips; and bull tongs.

b) Larger size casing handling equipment for 16" - 20" conductor casing consist of:

20" Hydraulic casing tong; 16" - 20" side door elevator; 500Ton spider elevator; single joint elevator; manual hand slip; safety clamp; and other accessories.

c) Medium size casing handling equipment for 7" - 13-3/8" casing consist of:

13-3/8" hydraulic casing tong; 7" - 13-3/8" side door elevator; 350 Ton spider elevator; single joint elevator; manual hand slip; safety clamp; and other accessories.

d) Production tubing handling equipment, sizes from 2-3/8" - 5-1/2" tubing consist of:

7-5/8" hydraulic tubing tong for 2-3/8" - 5-1/2" tubing; 150 Ton side door elevator; 250 Ton slip type elevator; single joint elevator; manual slip; safety clamp; 250 Ton Dual elevator; CT3000 & LT3000 computerized Torque monitoring system; and accessories.

4.5 Information On Subsidiary Company

As at the date of this Prospectus, the information on ST, the subsidiary company of KST, which was incorporated in Malaysia, is as set out below.

(i) ST

(a) History And Business

ST, a wholly owned subsidiary of KST was incorporated in Malaysia on 3 March 1983 as a private limited company under the Act and commenced operations on 9 January 1985. The earlier business activity of the company was in the trading and supplying of oil tools, spare parts and drill bits to companies in the oil and gas industry. ST also acted as an agent for drilling rigs, chemical and industrial products that were exclusively used in the oil industry. In the 1990s, ST extended its business to include testing and tubular inspection and maintenance services for companies in the oil and gas industry. The Company set up two plants in 1996 at the Kemaman Supply Base, Kemaman, Terengganu and the Asian Supply Base, Labuan, Sabah.

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

(b) Share Capital

Authorised And Issued & Paid-Up Share Capital

The authorised and issued and paid-up share capital of ST is as follow:

	No. Of Ordinary Shares	Par Value (RM)	Total (RM)
Authorised	1,000,000	1.00	1,000,000
Issued and paid-up	1,000,000	1.00	1,000,000

Changes In Issued And Paid-Up Share Capital

The changes in the issued and paid-up share capital of ST since the date of its incorporation is as follows:

Date Of Allotment	No. Of Ordinary Shares Allotted	Par Value (RM)	Consideration	Total Issued And Paid- up Capital (RM)
03.03.83	3	1.00	Subscribers' share	3
25.06.83	99,997	1.00	Cash	100,000
05.01.87	100,000	1.00	Cash	200,000
16.03.90	300,000	1.00	Bonus Issue	500,000
28.12.90	500,000	1.00	Bonus Issue	1,000,000

(c) Directors and Substantial Shareholders

The Directors of ST are also the Directors of KST. Their respective shareholdings are set out below.

Name	<---Direct --->		<---Indirect--->	
	No. of shares	%	No. of shares	%
Dato' Dr. Abdul Razak Bin Abdul Mohammad Bin Ayob ⁽¹⁾	-	-	1,000,000	100
Dato' Chee Peck Kiat @ Chee Peck Jan ⁽¹⁾	-	-	1,000,000	100
Dato' Abdul Rahman Bin Nasir	-	-	-	-
Dato' Nik Abdul Aziz Bin Mohamed Kamil	-	-	-	-
Wee Khen Peng	-	-	-	-

Note:

(1) Deemed interested by virtue of their substantial shareholding in KST

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

The substantial shareholders of ST and its shareholdings are set out below.

Name	<--- Direct ---->		<--Indirect-->	
	No. of shares	%	No. of shares	%
KST	1,000,000	100	-	-
Dato' Dr. Abdul Razak Bin Abdul ¹⁾	-	-	1,000,000	100
Mohammad Bin Ayob ⁽¹⁾	-	-	1,000,000	100
Dato' Chee Peck Kiat @ Chee Peck Jan ⁽¹⁾	-	-	1,000,000	100

Note:

(1) Deemed interested by virtue of their substantial shareholding in KST.

(d) Subsidiary And Associated Companies

As at the date of this Prospectus, ST has no subsidiary or associated company.

(e) Employees

As at 15 January 2004, the total number of employees of ST is 39 as illustrated below.

Categories	No. Of Employees	Range of Years In Service
Managerial and Professional	4	2 to 15
Technical and Supervisory	25	1 to 6
Clerical and related occupations (e.g. clerks, typist, stenographers, personal secretaries, etc.)	7	1 to 5
General	3	-
Total	39	

4.6 Industry Overview

4.6.1 The Malaysian Petroleum Industry

4.6.1.1 Industry Structure

The petroleum industry can be separated into two stages – upstream and downstream. Upstream activities essentially involve exploration and crude oil production. Downstream activities largely encompass refining and marketing of petroleum products. In Malaysia, only 3 organisations are involved in both stages. These are PETRONAS, the Shell group of companies (through companies such as Sarawak Shell Bhd, Shell Refining Company (F.O.M.) Bhd., Shell Sabah Selatan Sdn Bhd, Sabah Shell Petroleum Co Ltd, Shell Oil And Gas Malaysia LLC and Shell Malaysia Trading Sdn Bhd) and EMEPMI.

PETRONAS' exploration arm is undertaken by PCSB and Petronas Dagangan Berhad ("PDB") undertakes the marketing of petroleum products. PCSB and EMEPMI carry out exploration and crude oil production around the Peninsular Malaysia – usually together. However, the largest crude oil producer in Peninsular Malaysia is EMEPMI, which accounts for nearly half of Malaysia's Crude oil production.

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

Malaysia contains oil reserves of 4.54 billion barrels (including condensates) as at January 2003, up from 4.24 billion barrels in 2002. Malaysia's crude oil production has been stable in recent years, with monthly production numbers fluctuating between 600,000 bbl/d and 740,000 bbl/d between 1990 and early 2003. During the first six months of 2003, crude oil production including condensates averaged 739,800 bbl/d, reflecting an 8.1% increase compared to the same period in 2002. As at 30 September 2003, it was reported that Malaysia's crude oil production, including condensates averaged at 733,200 bbl/d. Overall production for the year 2003 is expected to increase by 2.4% with an average of 716,000 bbl/d based on the planned work programme for the year. Thus, after a pause during the Asian financial crisis, Malaysia's domestic petroleum product consumption is growing again, and the country is expected to become a net crude oil importer before the end of the current decade. Currently, Malaysia is in a unique position as it is a net exporter of crude oil but a net importer of petroleum products. This unique situation is fast changing as well. In the near future, Malaysia is set to become a net exporter of petroleum products.

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

4.6.1.2 PSCs

Under the terms of the Petroleum Development Act of 1974, the upstream oil and gas industry is the sole province of PETRONAS, the sole entity with legal title to the Malaysian crude oil and gas deposits. Foreign investment takes the form of PSCs. A PSC contains all necessary provisions regarding exploration, development, and production of oil and gas fields and the formula for sharing of production. Exploration is a process which generally lasts for a few consecutive years depending on the size of the contract areas. During the exploration period, exploratory and appraisal work is done on the field in order to discover petroleum and to enable the parties to determine the commercial viability of such discoveries. The development period begins on the date that the overall development plan, which outlines among other things recoverable reserves and schedules for the development of the discovered petroleum, is approved by the regulatory authorities. Once design, construction, installation, drilling and related research work for petroleum production has been completed, the development period comes to an end. The production period begins on the date of the commencement of commercial operations and usually lasts for a period of 8 to 15 years, depending on the size of the oil and gas fields.

The KST Group is heavily involved in the first two upstream processes of the oil and gas industry, namely the exploration and the development processes, where there is heavy drilling activity in order to discover and develop new oil and gas wells. When production begins, the drilling activities will begin to wind down. However, The KST Group will still be involved in this stage in a workover capacity i.e. relating to the maintenance of tubulars in existing oil and gas wells.

PETRONAS has PSCs with a number of international oil and gas companies through its wholly owned subsidiary, PCSB. Its PSCs being similar to those that multinational oil and gas companies enter into with other host countries and partners. Each contract obligates the PSC Contractor to provide all the financing and bear all the risk of exploration, development and production activities in exchange for a share of total production.

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

Investments in Malaysia's exploration and production activities grew significantly during the year indicative of the high potential of Malaysia's acreages and attractiveness of the PSCs.

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

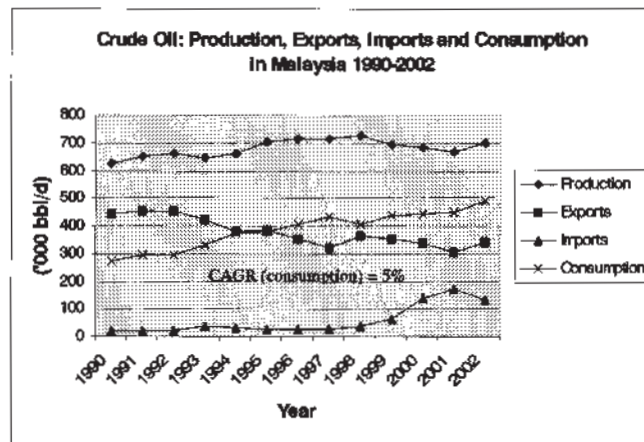
4.6.2 Crude Oil Industry Growth Trend

Over the last decade, crude oil consumption in Malaysia has increased steadily. Consumption grew from 271,000 bbl/d in 1990 to about 489,000 bbl/d in 2002, representing a compounded annual growth rate ("CAGR") of 5%. This growth is consistent with the country's economic boom in the early to mid 90s, where many of the crude oil consuming sectors saw similar growth patterns. Consumption fell slightly in 1998 due to the Asian economic crisis.

Crude oil production grew by a slower CAGR of just over 0.89% in the same period. The boom in production was fundamentally during the 1980s, after the discovery of significant oil reserves in Malaysia in the 1970s caused the rise of PETRONAS and the proliferation of the major foreign oil and gas companies in this country.

Exports fell slightly between 1990 and 2001, by a CAGR of -2%, while imports showed a compounded growth of about 30%. This largely shows that domestic demand has been on the rise, with more production being consumed locally and increasing imports to meet this demand.

The chart below shows the crude oil production, exports, imports and consumption in Malaysia for the period of 1990-2002:



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

4.6.3 The Malaysian Natural Gas Industry

Malaysia contains 89.0 tcf of natural gas reserves as at 1 January 2003. Natural gas production has been rising steadily in recent years, reaching 1.72 tcf in 2002, up from 1.63 tcf, 1.50 tcf and 1.42 tcf in 2001, 2000 and 1999 respectively. The production of natural gas during the first six months of 2003 increased by 6.2% to 864,500 million standard cubic feet (mmscf) compared to 814,100 mmscf during the same period in 2002. Total production for the year is projected to increase by 10% to 5,644 million standard cubic feet per day (mmscfd) in tandem with anticipated increase demand as well as higher domestic usage of gas following the revision of gas prices early this year. In 2003, with the coming onstream of the MLNG3 plant, Malaysia is set to be the world's second largest producer of liquefied natural gas ("LNG").

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

The production of natural gas in Malaysia over the last 5 years is summarised in the table below:

	1998	1999	2000	2001	2002
Production (tcf)	N/A	1.42	1.50	1.63	1.72

One of the most active areas in Malaysia for gas exploration and development is the Malaysia-Thailand Joint Development Area ("JDA"), located in the lower part of the Gulf of Thailand and governed by the Malaysia-Thailand Joint Authority ("MTJA"). The MTJA was established by the two governments for joint exploration of the once-disputed JDA.

In line with Malaysia's energy diversification strategy, PETRONAS is also attempting to promote the utilisation of natural gas with the implementation of its three-phase Peninsular Gas Utilisation ("PGU") project, which started in 1984. In December 1997, PGU III, the final phase of the three-phase PGU project was completed. The trans-peninsular gas transmission pipeline spans over 1,700 km in length from PETRONAS' gas processing plant complex in the East Coast of Peninsular Malaysia to the West Coast, stretching from the Malaysia-Thailand border in the north to Singapore on the south, supplying processed gas to meet the needs of the power, industrial and residential sectors in the country as well as a power plant in Singapore. The system comprises six gas processing plants with a combined capacity of 2,000 million standard cubic feet of gas per day. Plans are underway to link the PGU pipeline to the Trans Thailand-Malaysia Gas Pipeline system to transport gas from the Malaysian-Thailand JDA mentioned earlier. This linkage will further enhance the security of supply to the country and at the same time connect a third ASEAN nation to the ASEAN Gas Grid.

On 19 February 2002, Malaysia LNG Tiga Sdn Bhd ("MLNG Tiga") signed a sale and purchase agreement for the supply of up to 1.6 million tonnes of liquefied natural gas LNG a year to a consortium comprising Tokyo Gas Co Ltd, Toho Gas Co Ltd and Osaka Gas Co Ltd for 20 years beginning from 2004. On 8 March 2002, a memorandum of agreement with The Tokyo Electric Power Company Inc and Tokyo Gas Company Ltd to supply up to 7.4 million tonnes of LNG per annum for 15 years beginning 2003, with an option for a five-year extension. On 9 April 2002, MLNG Tiga signed a sale and purchase agreement with Japan Petroleum Exploration Co Ltd to supply up to 480,000 tonnes of LNG per year for 20 years beginning from the year 2003.

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

4.6.4 Summary of Outlook and Prospect for the Oil and Gas Industry

Malaysia's oil reserves stood at 4.54 billion barrels (including condensates) at the beginning of 2003, higher than 4.24 billion barrels in 2002, representing a reserve life of approximately 18 years. Malaysia's crude oil production has been stable in recent years, with monthly production numbers fluctuating between 600,000 barrels per day ("bbl/d") and 740,000 bbl/d between 1990 and early 2003.

Consumption grew from 271,000 bbl/d in 1990 to about 489,000 bbl/d in 2002, representing a CAGR of 5%. This growth is consistent with the country's economic boom in the early to mid 90s, where many of the crude oil consuming sectors saw similar growth patterns. After a pause during the Asian financial crisis, Malaysia's domestic petroleum product consumption is growing again, and the country is expected to become a net crude oil importer before the end of the current decade. Currently, Malaysia is in a unique position as it is a net exporter of crude oil but a net importer of petroleum products. This unique situation is fast changing as well. In the near future, Malaysia is set to become a net exporter of petroleum products.

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

As a result of declining oil reserves, PCSB has embarked on an international exploration and production strategy. Currently, PCSB has invested in oil exploration and production projects in Syria, Turkmenistan, Iran, Pakistan, China, Vietnam, Myanmar, Algeria, Libya, Tunisia, Sudan, and Angola. Overseas operations now make up nearly one-third of PCSB's revenue. Malaysia exports majority of its oil to markets in Japan, Thailand, South Korea, and Singapore, and its net oil export is currently estimated to be over 260,000 bbl/d.

Natural gas reserves in Malaysia stood at 89.0 tcf as at 1 January 2003, equivalent to a reserve life of approximately 35 years. Malaysia's natural gas production for the last year increased marginally to 1.72 tcf. Natural gas production has been rising steadily in recent years, reaching 1.72 tcf in 2002, up from 1.63 tcf, 1.50 tcf and 1.42 tcf in 2001, 2000 and 1999 respectively.

Malaysia accounted for approximately 15% of total world LNG exports in 2000. After a brief downturn related to the Asian financial crisis, demand for LNG is rising again, and Malaysia is proceeding with a long-planned expansion of its Bintulu LNG complex in Sarawak. The Bintulu facility as a whole will then be the largest LNG liquefaction centre in the world, with a total capacity of 1.1 tcf per year.

As a player in the oilfield services industry, the outlook for the KST Group depends heavily on the performance of the oil and gas industry. With signs pointing toward a recovery in the industry after Asian financial crisis and subsequent global economic slowdown, and with the industry expected to maintain steady growth as a result of the reasonably high oil and gas reserves and prices, prospects for the Group look promising.

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

4.6.5 Overview of the World Economy

Following a series of adverse events in the first half of 2003, there are now increasing signs of a renewed recovery, and the balance of risks in April, tilted well to the downside has improved significantly. The latest World Output projections from the International Monetary Fund ("IMF") are as follows:

(%)	1997	1998	1999	2000	2001	2002	2003	2004
World	4.2	2.8	3.6	4.7	2.3	3.0	3.2	4.1

With major hostilities in Iraq indeed ending quickly, forward-looking indicators generally turned up, with equity markets strengthening markedly, accompanied by some pickup in business and consumer confidence, particularly in the United States, there was evidence of a rebound in the global economy, with global GDP growth is expected at 3.2% in 2003, rising to 4.1% - close to trend- in 2004. Concurrent data initially remained weak, with industrial production and trade growth slowing markedly in the second quarter, reflecting continued after effects of the bursting of the equity price bubble and particularly in Asia- the impact of Severe Acute Respiratory Syndrome (SARS).

Most recently, however, there have been growing signs of a pickup in activity including investment particularly in the United States, Japan and some emerging market countries, notably in Asia. With inflationary pressures very subdued, macroeconomic policies have been eased further across the globe. Interest rates have been reduced in Europe and the United States, as well as in number of other industrial and emerging market countries; and fiscal policy has been further relaxed in the United States and a number of Asian countries.

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

The outlook for emerging markets continues to be driven to different extents by developments in industrial countries, external financing conditions, geopolitical factors and country-specific developments. In emerging markets in Asia, with the effects of SARS now waning, growth is expected to pick up in the second half of 2003 and remain strong in 2004, aided by timely additional policy easing and continued robust growth in China.

Among the industrial countries, recovery will continue to be led by the United States where despite a weak labour market and considerable excess capacity- current data have shown greatest signs of improvement, forward-looking indicators are strongest, and there is the most policy stimulus in the pipeline.

Other positive support activities that have and will continue to aid the global economy towards a speedier recovery include:

- Continued accommodative policies such as the easing of the monetary policies of major countries,
- The resilience of the global financial infrastructure to a variety of substantial shocks; and
- Strengthening economic fundamentals in many countries, especially in Asia

In the longer term, aggressive monetary and fiscal policy responses by major advanced economies and developing countries should bring world growth back on track. The Malaysian economy expanded by 4.2% in 2002 (2001: 0.4%). This recovery was mainly driven by strong consumption spending and supported by the external demand following the general overall recovery in the global economy. After expanding 4.5% in the first half and with prospects of a sustained growth in the second half, the economy is set to achieve its targeted growth of 4.5% this year, higher than the 4.1% achieved in 2002.

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

4.6.6 Overview of the Malaysian Economy

The year 2001 held promises of great economic recovery and strong growth in all the major economic sectors, similar to 2000. However, that was not the case. The global economic slowdown has finally made its mark in the Malaysian economy, with the country reporting another month of declining exports. The impact on Malaysia of the downturn in the electronics cycle and the slowdown in the global economy was transmitted through the export channel. Exports, which had remained positive since 1987, fell by 7.5% in 2001. Specifically, exports of electrical and electronic products, which make up 59.9% of total exports for 2001, fell by 5.7% from the same period last year. This contraction was experienced in almost all sectors, manufacturing as well as primary commodities. However, the contraction of exports for Malaysia is still less severe than that of other Asian countries like South Korea, Taiwan and Singapore.

Given the existing structure of high import content in exports, imports also declined by 8.6% in 2001. The trade surplus in 2001, therefore narrowed, but remained large at RM27.7 billion (USD7.3 billion). This contraction in both exports and imports started in March 2001, reached its peak in September and moderated in the fourth quarter. Improvements in both exports and imports supported other indicators so that, by the end of 2001, the economy was in the early stages of recovery.

In 2001, as an added shield to the September 11, 2001 terrorist attacks, the Government announced an additional RM4.3 billion (USD1.1 billion) stimulus package to boost the economy. This stimulus package serves as a measure used to prop up the economy, following the RM3 billion supplementary budget in March 2001 and the RM28 billion spending package from the 2001 budget.

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

Further to the above fiscal measures, Bank Negara Malaysia also announced the reduction of its 3-month "intervention" rate by 50 basis points, and also allowed banks to reduce savings deposit rates by up to 0.25% points. Malaysia's foreign exchange reserves also remained strong, rising by RM538 million, ending 2001 with total reserves of RM117.2 billion.

After experiencing sluggish growth in 2001, the Malaysian economy rebounded strongly in 2002. Higher growth in 2002 bolstered optimism for a stronger economic performance in 2003 in anticipation of an improved world economic outlook. The prospect for a global economic recovery was, however affected by recent geopolitical developments, in particular the war in Iraq, sporadic instances of militancy and outbreak of the Severe Acute Respiratory Syndrome ("SARS"). During the second quarter, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probable prolonged and widespread SARS epidemic that curtailed transport and tourism-related activities, besides trade and investment flows.

Against this adverse global environment and concerns of further weakening of the already sluggish global economy, the Malaysian Government has put in place a package of broad-based pro-growth measures in May 2003. The Package of New Strategies, apart from providing immediate relief for the SARS-affected sectors, was to address structural and organisational issues towards sustaining economic growth in the medium and longer term. The strategic measures introduced boosted confidence necessary to stimulate domestic consumption and investment. In addition, the short war in Iraq and the quick containment of SARS provided the much-needed relief for the economy to ride over the difficult times and remain on track to a firmer growth trajectory.

Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented by the Government's proactive stimulus package have helped to sustain high growth in the real Gross Domestic Product ("GDP"). After expanding 4.5% in the first half and with prospects of a sustained growth in the second half, the economy is set to achieve its targeted growth of 4.5% this year, higher than the 4.1% achieved in 2002.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pick-up in external demand in the second half of the year. Exports will continue to be buoyed by global economic recovery and the upturn in electronics especially in information technology-related products and equipment. On the domestic front, consumer spending continues to pick up, on account of favourable export earnings and high commodity prices, positive wealth effect from better stock market performance as well as rising consumer confidence. All sectors registered positive growth with manufacturing and services driving the economy.

The Malaysian economy remains resilient to post a higher real GDP growth in the first half of 2003, despite the adverse external economic environment. While the outbreak of SARS in the region had some transitory negative-effect on tourism-related industries, it did not significantly impact the overall performance of the economy in the first half of the year. Consumer and business sentiments are expected to be further enhanced following the containment of SARS and better world economic outlook anticipated for the rest of the year. Hence, growth momentum is envisaged to continue in the second half of 2003. Overall growth for the year is estimated at 4.5%. Growth is expected to be across the board, driven largely by services and manufacturing output.

The steady economic performance, underpinned by stronger domestic demand and mild growth in the external sector, reflects the cumulative effect of the pro-growth fiscal and monetary policy measures. The growth was achieved in an environment of low inflation amidst stable labour market conditions.

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

Inflation is expected to remain subdued for the year 2003 in spite of higher domestic demand supported by pro-growth measures of the Government. Generally there is an absence of pressure on the general price level. The lower Consumer Price Index ("CPI") in the first half of the year reflected consumer sentiment which was affected by external uncertainties on global economic recovery, the Iraq war and SARS. Consequently, inflation remained tame with CPI increasing 1.1% for the first seven months of 2003. The overall Producer Price Index ("PPI") for the first seven months of 2003 increased 7% (2002:1.5%). The increase was attributed to the higher price for crude oil arising from fears of disruptions in supply due to the Iraq war and subsequently reduced supply arising from the Venezuela oil crisis. Labour market conditions are expected to be more favourable in 2003 due to a moderately improved economic performance, particularly in the second half of the year. With the better economic situation, improved employment prospects and reduced retrenchments, unemployment continues to remain low for the year with higher productivity amidst subdued wage levels. Despite external uncertainties and the outbreak of SARS, the number of retrenched workers declined by 11% during the first seven months of 2003 (2002: -20%). In addition, the number of those employed is expected to increase by 28%, with the second half of the year showing a strong pace. Unemployment is thus, estimated to remain low at 3.5%.

The economic outlook for 2004 is envisaged to be favourable. Real GDP growth is envisaged to gain momentum and register a higher rate of 5.5%-6% in 2004. Growth is expected to emanate from higher exports on account of continuing improvement in world economic prospects while domestic demand will continue to be driven by pro-growth fiscal and monetary measures. Whilst all sectors are forecast to register higher growth, services and manufacturing will continue to lead GDP growth, contributing 3.1 and 2.2 percentage points respectively.

Of particular importance is the shift in the structure of the economy to focus on the services sector in keeping with the status of the nation as a more developed economy. The agriculture sector will be revitalised and emerge as the third engine of growth. In line with better economic prospect, per capita income is projected to continue to increase by 4.3% to RM14,954 (2003: 4.8%, RM14,343), while income in term of purchasing power parity will also increase by 5.3% to USD9,887 (2003: 6%, USD9,390).

Given the better prospects of world economic growth and international trade in 2004, with firm recovery taking place in several major industrialised countries and regional economies, the Malaysian economy is projected to strengthen and be reinforced by more vigorous domestic economic activities. In this regard, domestic demand (excluding change in stocks) in real terms is likely to increase at a fairly strong rate of 4.7% (2003:5%), generated largely by the private sector resuming its role as the engine of growth and supported by pro-growth fiscal and monetary measures.

As mentioned earlier, external developments and strengthening domestic economy point to stronger growth in the manufacturing sector. Growth in export-oriented industries, in particular the electronics industry, is envisaged to gain strength following higher inter-regional trade, particularly between ASEAN and East Asia. Efforts to promote domestic consumption as well as advancements into higher value-added products will further boost growth of domestic-oriented industries. Taking cognisance of the on-going development processes, the overall value added of the manufacturing sector is expected to register a stronger growth of 7.2%.

The agriculture sector is forecast to expand by 3% largely due to higher production of palm oil following the increase in matured areas in Sabah and Sarawak. Higher utilisation of palm oil in downstream processing, such as oleochemicals will further spur growth of the sector. In addition, the yield of major commodities is also envisaged to increase in line with continuing introduction of new breeds of more productive clones in palm oil, rubber and cocoa. Marine fish landing is also expected to increase due to better facilities and equipment made available to the fishing industry through the Stimulus Package of 2003.

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

As the domestic economy strengthens in 2004, the demand for energy will continue to increase. Output of natural gas is envisaged to increase by 11.6% due to expanded production capacity and anticipated higher demand in tandem with global economic recovery while output of crude oil is expected to maintain at 600,000 barrels per day (excluding condensates). As a result, growth of value added of the mining sector is forecast to increase by 3.5%.

The construction sector will continue to be supported by the property sub-sector, driven by measures and incentives introduced under the 2003 Stimulus Package to stimulate construction and sales of residential properties, in particular affordable houses. On-going public and privatised infrastructure projects as well as offshore fabrication works in the oil and gas industry will further boost the growth of the sector. The construction sector is, therefore projected to register a slightly stronger growth of 2.6%.

Growth in the services sector will be broad based, fuelled by higher demand for transport, telecommunication, financial and insurance services in tandem with improved economic performance. A robust manufacturing sector will underpin higher consumption in utilities and higher trade and commercial activities will enhance growth. The services sector is, therefore envisaged to record a higher growth of 5.5% in 2004.

A mid-term review of the 8MP was completed recently. It was noted that during the review period, 2001-2003, the Malaysian economy recorded a credible performance, despite the unprecedented volatility in the global economy as well as uncertainties arising from international terrorism wars in Afghanistan and Iraq, and the outbreak of SARS. The economy was largely able to sustain growth due to the expansion in domestic demand brought about by fiscal stimulus and accommodative monetary policies. The promotion of domestic sources of growth also contributed to enhanced economic resilience. These policies brought about the robust expansion in consumption activities and placed the financial structure and economic fundamentals on a stronger footing.

During the review period, the GDP in real terms grew at an average rate of 3.0 per cent per annum compared with the 8MP target of 7.5 per cent per annum. Although this was below expectation, the economic performance was better than achieved by some other countries in the region. During this period, per capita Gross National Product ("GNP") increased by 2.4 per cent per annum from RM13,352 in 2000 to RM14,324 in 2003. Per capita GNP in terms of purchasing power parity recorded a higher growth of 3.9 per cent per annum from USD8,360 in 2000 to USD9,380 in 2003 as a result of lower domestic inflation and stable exchange rate.

For the remaining Plan period, 2004-2005, macroeconomic policies will be directed towards achieving the objectives of the 8MP of sustainable growth with resilience. Sound macroeconomic management will continue to be pursued together with efforts to strengthen the governance and resilience of the financial and corporate sectors. In addition, efforts will be intensified to develop the knowledge-based economy and accelerate the development of growth sectors.

The Malaysian economy will continue to rely on domestic demand to accelerate its growth performance while at the same time adopting an innovative and concerted approach to meet the increasing challenges in the global environment. In this regard, the public sector will perform a facilitative role by pursuing prudent fiscal and accommodative monetary policies. The private sector is expected to be more aggressive in stimulating the economy by increasing investment as well as enhancing productivity and competitiveness. During 2004-2005, real GDP is projected to grow at an average rate of 6.0 per cent per annum in line with the potential output, placing the economy on track towards achieving the targets of the National Vision Policy and Vision 2020.

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

Economic growth will accrue from the increased activities in the services and the manufacturing sectors as well as the agriculture sector. The high growth is expected to be achieved in an environment of low inflation and low unemployment rate. Per capita GNP is projected to increase by 4.4 per cent per annum from RM14,324 or USD3,770 in 2003 to RM15,598 or USD4,105 in 2005, while per capita GNP in terms of purchasing power parity is expected to record a higher increase of 5.5 per cent per annum from USD9,380 in 2003 to USD10,432 by 2005.

Development expenditure will be prioritised towards committed and approved projects under the mid-term review of the 8MP, especially those with strong linkages and value creation potential in the economy. Already, steps are in place to transition the country from a production-based economy to a technology and knowledge-based economy to ensure that Malaysia remains competitive in the global economy.

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

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

4.7 Major Customers

The Group's major customers comprise local and foreign upstream oil and gas companies operating in Malaysia, and other offshore drilling companies. These companies include EMEPMI, PCSB, Shell, and Talisman.

The list of major customers of the KST Group, for the financial period ended 31 July 2003 are listed below. As at 31 July 2003, KST has eight (8) customers in total.

	Country	Percentage of Turnover to Total Sales For Financial Period Ended 31 July 2003 (%)	Years of Relationship
<u>KST's Customers</u>			
PCSB	Malaysia	29	6
Talisman	Malaysia	27	2
EMEPMI	Malaysia	27	10
Ecodrill (M) Sdn Bhd	Malaysia	14	2
Halliburton Energy Services (M) Sdn Bhd	Malaysia	2	10
FMC Wellhead Equipment Sdn Bhd	Malaysia	1	3
JH Hardware Sdn Bhd	Malaysia	-	10
Geowell Sdn Bhd	Malaysia	-	2
		100	

	Country	Percentage of Turnover to Total Sales For Financial Period Ended 31 July 2003 (%)	Years of Relationship
<u>ST's Customers</u>			
UMW Citra Maju Sdn Bhd	Malaysia	22	5
Malaysia International Trading Corporation (Japan) Sdn Bhd	Malaysia	11	2
Tioman Drilling Sdn. Bhd.	Malaysia	30	7
		63	

Due to the nature of the oil and gas industry being highly specialized, there are only a handful of oil and gas operators for the Group to choose from to widen its spectrum of customers. Although the top three customers represented 83% of the Group's total revenue, over dependency is somewhat mitigated by long term relationship as these top customers have an on-going 4 years contracts with a one (1) year extension option - starting from 5 April 2000 for PCSB, whereas the second largest customer also has a 4 years contract with a one (1) year extension option starting from 1 October 2000 for EMEPMI and the third largest customer also has a two (2) years contract starting 3 July 2002 for Talisman with an option of two (2) one-year extensions. The long-term business relationship implies a satisfactory and beneficial customer-supplier relationship and this forms the basis for continuing business relationship. More than 50% of the Group's top customers have been with the Group for more than five years.

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

4.8 Major Suppliers

The KST Group's suppliers are mostly manufacturers who supply equipment, machinery, accessories, spare parts and tools. Almost all of these suppliers are foreign, with the majority being from USA and Singapore. Some of the spare parts and tools are also purchased from trading houses in USA.

While the equipment and machinery are wholly imported, certain modifications are carried out locally to suit domestic conditions.

KST Group's key suppliers are listed in the following table:

	Type of product(s) supplied	Country	Percentage of Total Purchase For Financial Period Ended 31 July 2003 (%)	Years of Relationship
KST's Suppliers				
Global Oilfield Technologies Inc	Handling equipment	Singapore	57	6
KNL Foundry Sdn Bhd	Handling equipment	Malaysia	12	2
Superior Manufacturing & Hydraulic Inc	Handling equipment	USA	10	10
Vtech Pneumatic & Hydraulic Systems	Accessories	Malaysia	3	3
DH Industrial Sdn. Bhd.	Accessories	Malaysia	3	3
Grand Pacific Industrial Equipment Sdn Bhd	Accessories	Malaysia	3	2
JH Hardware Sdn Bhd	Accessories	Malaysia	2	10
Secure Tooling Systems	Accessories	Singapore	2	1
CL Machineries Sdn Bhd	Accessories	Malaysia	2	10
Integral Engineering & Services	Accessories	Malaysia	1	3
Others			5	-
			100	

	Type of product(s) supplied	Country	Percentage of Total Purchase For Financial Period Ended 31 July 2003 (%)	Years of Relationship
ST's Suppliers				
Asian Supply Base	Rental of Equipment	Malaysia	22	7
EH Chemical (M) Sdn. Bhd.	Consumable	Malaysia	12	2
Pemborong Maju Sdn. Bhd.	Manpower Supply	Malaysia	8	2
			42	

KST Group's top suppliers which accounted for RM258,259, which represented 79% of total purchases for the financial period ended 31 July 2003. For the financial period ended 31 July 2003, the two largest suppliers for the Group, namely Global Oilfield Technologies Inc and KNL Foundry Sdn Bhd, accounted for 69% of the total Group purchases. This was mainly for the handling equipment and rental of equipment.

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

Over dependency on the suppliers mentioned above is somewhat mitigated by the fact that the supplier has been with the Group since it started in 1996. The long-term relationship amounting to approximately 6 years indicates the strong and mutually beneficial relationship enjoyed by both parties. As such, this would provide the basis for a continuing business relationship.

The Group's over dependency on its core product of tubular handling equipment is somewhat mitigated by the fact that the equipment could be used across different rigs all over the world, with minor modification. This gives the Group significant leeway to source alternative supply of equipment handling to reduce over dependency if such situation arises. In addition, most of its top suppliers have been with the Group for number of years. This indicates some stability in the Group's supply of tubular handling equipment.

4.8.1 Financial Arrangements With Suppliers

Manufacturers in the United States and United Kingdom require the KST Group to issue letters of credit from a reputable local bank before any purchase order is confirmed. The normal credit period from the overseas suppliers is usually 90 days. The Group is not dependent on any single supplier.

4.9 Future Plans, Strategies And Prospects

4.9.1 Future Plans and Strategies of the Group

The KST Group intends to strengthen its foothold on the domestic oilfield services industry by remaining a major supplier of tubular handling equipment and running services as well as tubular inspection and maintenance services to the oil and gas operators in the country. The Government of Malaysia's encouragement to foreign operators to utilise Malaysian subcontractors is seen as a significant advantage to companies like the KST Group. It will continue to concentrate its growth strategy in its core areas, diversifying within these core activities and look to provide more services to the oilfield services industry.

The Group's other expansion thrust lies in providing services abroad, which it plans to carry out using two key approaches. The first is to participate in PCSB's overseas ventures. With PCSB having operations in 21 countries, there is significant opportunity for the KST Group to grow with PCSB. For example, PETRONAS was awarded four PSCs by the Myanmar government in 2002. On 12 September 2003, Petronas International Corporation Limited ("PICL"), a wholly owned subsidiary of PETRONAS completed the transfer of its 25 per cent interest in Premier Oil Plc for the latter's interests in producing fields in Myanmar and Indonesia. It has also signed a contract in the same year with its Vietnamese counterpart Petrovietnam to explore and develop hydrocarbon resources in two exploration blocks offshore in Vietnam. As a result of increasing overseas activities, PETRONAS has accumulated international reserves of about 3.7 billion barrels of oil equivalent, including its share of reserves in the Malaysia-Thailand Joint Development Area (MTJDA). The key geographical markets of focus for the Group will be similar to those targeted by PCSB, namely the Middle East, Africa and the Asian region. With the listing on the MSEB, the KST Group is in a position to expand into other related oil and gas services by forming strategic alliances with foreign companies.

The second of these two approaches will be to establish an international operations base, and the current plan is to set-up a base in the Middle East, as a centre for its intended target market in the Middle East and Africa. This will bring the Group closer to PCSB's operations in these countries, and will enable it to deploy equipment and personnel much more efficiently and economically to areas outside of Malaysia. In addition, its presence in the region will also create greater awareness among other oil and gas operators in the area, and should allow the Group to promote and market its services more effectively.

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

The Group will also keep looking out for new opportunities to expand their revenue base through new service developments and strategic alliances with international players. Overall, it will be the Group's strong commitment to innovation, developing their people and productivity / efficiency improvements that will back them in facing the challenges ahead. The Group expects to crystallise its plans within the next two years upon its listing on the Second Board of the MSEB.

4.9.2 Prospects of the Group

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

Nonetheless, growth of the tubular handling equipment market may decline in the long run as oil reserves in Malaysia diminish but that is not expected to occur for another decade or two. Oil production in Malaysia has been declining slightly since its peak in 1996. Tubular handling equipment companies in Malaysia, like KST, are beginning to look to diversify into other areas of business to address the challenge of a small and shrinking end user base. However, the situation can improve, should exploration work in Malaysia lead to new oil field discoveries in Malaysia. Nonetheless, in order to remain competitive and prepare themselves for many different scenarios, KST has begun to expand and serve clients domestically, and although KST does not have any direct presence in the foreign countries, the Company is looking to diversify its coverage. KST Group is currently supplying tubular handling services to the domestic market, and is seeking opportunities to supply to the overseas market.

In the meantime, PETRONAS has embarked on an international exploration, development and production strategy. Malaysian tubular handling equipment companies, like KST, are therefore able to gain from PETRONAS' venture abroad if KST is able to obtain global tubular handling equipment contracts with PETRONAS. PETRONAS' global expansion strategy has led it to hold stakes in the oil and gas industry over 22 countries around the world. Long term global partnerships to supply PETRONAS' worldwide operations may be a lucrative endeavour for tubular handling equipment companies in Malaysia.

To this effect, KST has already registered its interest with PCSB to participate in its international drilling operations in an effort to sustain and develop KST's core business activities over the longer term. To date, several tenders have been submitted by the Group to participate in the foreign operations of PCSB and the Group will continuously place its effort to be successful overseas as it has been locally. Given its proven track record, high local participation and KST being registered as a PETRONAS licensee, the Board is of the view that KST's bid would be positively viewed. The Directors expect that the Group will start generating revenue from its overseas operations within the next two years upon its listing on the Second Board of the MSEB. As such, the profit forecast for the financial year ending 31 December 2004, has incorporated revenue from the Group's overseas operations.

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