12. VALUERS' LETTER

(Prepared for inclusion in this Prospectus)

KHONG & JAAFAR SDN BHD (31218-T)

REGISTERED VALUERS AND ESTATE AGENTS PROPERTY CONSULTANTS PROPERTY AND PROJECT MANAGERS
PROPERTY INVESTMENT ADVISORS MARKET AND FEASIBILITY RESEARCHERS

PENILAI DAN EJEN HARTA BERDAFTAR PERUNDING HARTA PENGURUS HARTA DAN PROJEK PENASIHAT
PELABURAN PENGKAJI KEMUNGKINAN DAN KAJIAN PASARAN HARTA. V(1) 0005 / E(1) 0008

57-1 JALAN TELAWI TIGA, BANGSAR BARU, 59100 KUALA LUMPUR. TEL: 03-22829699 FAX: 03-22829799

Our Ref: MV(WP) 830/2002 (A) & MV(T) 830/2002 (B)

Date 21 January 2004

The Board of Directors
Kejuruteraan Samudra Timur Berhad
No. 18 First Floor
Jalan Bangsar Utama 1
Bangsar Utama
59200 Kuala Lumpur

Dear Sirs,

**RE: KEJURUTERAAN SAMUDRA TIMUR BERHAD ("KST")
VALUATION OF PROPERTIES BELONGING TO KST AND ITS PROPOSED SUBSIDIARY**

This letter is prepared for inclusion in the Prospectus to be dated 28 January 2004 in relation to the proposed Public Issue of 10,200,000 new ordinary shares of RM1.00 each of the enlarged share capital in KST at an indicative price of RM1.30 per share in conjunction with the listing of KST on the Second Board of the Malaysia Securities Exchange Berhad.

We were instructed by KST to value the properties listed below. We confirmed we have valued the properties by the Comparison, Investment and Cost Methods of Valuation. The Valuations had been carried out in accordance with the Guidelines on Asset Valuations for Submission to the Securities Commission issued by the Securities Commission, in compliance with the Valuation Standards issued by The Board of Valuers, Appraisers and Estate Agents, Malaysia and with the necessary professional responsibility and due diligence.

We certified that in our opinion the total Market Value of the above Properties bearing references number MV(WP) 830/2002 (A) and MV(T) 830/2002 (B) belonging to KST and its proposed subsidiary on existing use basis in their existing condition using the methods stated amount to **RM2,517,000/- (Ringgit Malaysia Two Million Five Hundred And Seventeen Thousand Only)** as set out in the attached schedule.

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

Information and data for the above-mentioned valuations were obtained from various sources and they include the Land Office, the Valuation & Property Services Department, enquiries made on the field and information from the client.

Brief details of each of the Properties are shown in the attached Schedule of Properties.

Yours faithfully
For and on behalf of
KHONG & JAAFAR SDN BHD

AHAMAD LATIB
B.SURV.(HONS) MISM
Registered Valuer
No. V-250

12. VALUERS' LETTER *(Cont'd)*

SCHEDULE OF PROPERTIES

Date of Valuation/ Inspection	Ref. No.	Property (Title Details, Address)	Description, Age and Existing Use	Tenure/Restriction-in Interest/Charges	Registered Owner	Method of Valuation	Market Value for the existing use
30/12/02	MV(WP) 830/2002 (A)	Lot No. 332, Section 96, City of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur PN 9374 Shop cum Office Building No. 18, Jalan Bangsar Utama 1, Bangsar Utama, Bangsar, Kuala Lumpur	5-Storey Shop cum Office Building Existing Use: shop cum office Land Area: 168 square metres Gross Floor Area: 850.04 square metres Ground, second and third floors rented with a total monthly rental of RM9,103.25 Category of Land Use: "Bangunan" Date of issuance of CF : Sometime in year 1988	Leasehold 99 years expiring on 3 December 2085 (having an unexpired term of 82 years) "Tanah ini tidak boleh dipindahmilik, dipajak, dicagar dan digadaikan melainkan dengan kebenaran Jawatankuasa Kerja Tanah Wilayah Persekutuan Kuala Lumpur" Charges: Three times to Malayan Banking Berhad in year 1991 and 2000	Samudra Timur Sdn Bhd	Comparison & Investment Methods	RM2,167,000

12. VALUERS' LETTER *(Cont'd)*

Date of Valuation/ Inspection	Ref. No.	Property (Title Details, Address)	Description, Age and Existing Use	Tenure/Restriction-in Interest/Charges	Registered Owner	Method of Valuation	Market Value for the existing use
30/12/02	MV(T) 830/2002 (B)	Lot No. PT 5393, Mukim of Cukai, District of Kemaman, Terengganu Darul Iman HS (D) 2019 Factory No. B 17, Kawasan MIEL Jakar 3 Industrial Estate, Kemaman, Terengganu	1½-Storey Semi-Detached Factory Existing Use : Light Industrial Land Area : 947 square metres Gross Floor Area : 396.77 square metres Category of Land Use: "Perusahaan" Date of issuance of CF : 28 January 1992	Leasehold 60 years expiring on 19 April 2053 (having an unexpired term of 50 years) "Tanah yang diberimilik ini tidak boleh dipindahmilik, digadai atau dipajak kecuali terlebih dahulu diberi kebenaran bertulis oleh Pihak Berkuasa Negeri" and "Sekatan kepentingan diatas tidak tertakluk kepada Malaysia Industries Estates Sdn Bhd" Charge to Oriental Bank Berhad in 2000	Kejuruteraan Samudra Timur Sdn Bhd	Comparison & Cost Method	RM350,000

(Prepared for inclusion in this Prospectus)

ACNielsen

Date: 21 January 2004

This Executive Summary has been prepared for inclusion in the Prospectus dated 28 January 2004 pursuant to the listing of KEJURUTERAAN SAMUDRA TIMUR BHD ("**KST**") on the Second Board of Malaysia Securities Exchange Berhad ("MSEB").

This Executive Summary has been prepared with the intention to provide an overview of the industry as well as the operations of the company within the industry. **ACNielsen** had conducted the research as an independent third party, basing its Independent Market Research Report on publicly available information and economic trends at the point in time when the Independent Market Research Report was prepared to indicate the future direction of the industry.

....

Lee Joo Lee
Executive Director, Customised Research
ACNielsen (Malaysia) Sdn Bhd

Executive Summary

1.1 History

THE KST GROUP comprises Kejuruteraan Samudra Timur Bhd ("KST") and Samudra Timur Sdn Bhd ("ST"). As part of the listing exercise, KST is the holding company that will oversee the entire business operations.

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 and commenced operations on April 1987. The Company subsequently changed its name to Kejuruteraan Samudra Timur Sdn Bhd on 16 February 1987. On 16 January 2003 the Company changed its status from a private limited company to a public limited company and assumed its present name. KST's business began in 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 activities. 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 with a paid-up capital of RM100,000 and commenced operations on 9 January 1985. In the earlier years, ST's core business was in the trading and supply of oil tools, spare parts and drill bits to companies in the oil and gas. It also acted as an agent for drilling rigs, chemical and industrial products that were used exclusively 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 in the Kemaman Supply Base, Kemaman, Terengganu and the Asian Supply Base, Labuan, Sabah. These plants provide services for Oil Country Tubular Goods ("OCTG") maintenance complete with grit-blasting, coating and inspection facilities. It also provides a 4-function logging system to ascertain the integrity of tubulars. The paid-up capital was subsequently increased to RM1,000,000 in December 1990.

1.2 Business Overview and Principal Services

THE KST 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 services ensure that tubulars are installed in the 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 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 inspections to the more scientific approaches of electronic and magnetic particle inspections. 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 in Kemaman, Terengganu. The Kemaman Supply Base provides the Group's principal business activities in 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 out of 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 many companies offering support services to the 5 oil and gas operators, which operate on average around 36 platforms.

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.

For the last 5 years ending 2002, the Group has experienced positive annual year-on-year turnover growth.

In terms of contribution, it is clear that 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 2002. ST's tubular inspection and maintenance services are the other revenue contributor to the Group, with an average contribution of 30%.

The Group's services are essential to the 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.

1.3 People

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.

The Group's management believe in teamwork, innovation and openness in their day-to-day dealings with personnel, as well as promoting teamwork and togetherness where close co-ordination between those working onshore and offshore is required. The teamwork culture encouraged by senior management ensures the success of the Group as a whole and is not based on individual interests. The management also maintains a philosophy of promotion within the existing workforce.

2.1 Industry Overview

THE KST GROUP is in the oilfield services and equipment supply industry, which is a sub-sector or supporting industry of the oil and gas industry. Due to the dependence of the oilfield services industry on the upstream oil and gas industry, it is essential that an industry overview include an assessment of the latter.

2.1.1 Malaysian Petroleum Products Industry Overview[1]

2.1.1.1 Production Sharing Contracts ("PSC")[2]

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 has deposits. Foreign investment takes the form of Production Sharing Contracts ("PSCs"). A PSC contains all necessary provisions regarding exploration, development, and production of oil and gas fields and the formula. **Exploration** is a process which generally lasts for a few consecutive years depending on the size of the contract. During the exploration period, exploratory and appraisal work

[1] Sources - Energy Information Administration, Dept. of Energy (DOE), USA; The Star; RESOURCE magazine; various ACNielsen Industry reports.
[2] PETRONAS

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 oilfield.

2.1.2 Malaysian Petroleum Products Industry

2.1.2.1 Preamble

Malaysia's petroleum products industry is to a large extent influenced by its crude oil production. Several petroleum products in Malaysia face the ultimate form of government intervention i.e. price fixing. Though the intent is to protect the consumer and to some extent the industry, fluctuations in the industry's input (crude oil) prices can lead to volatile earnings. The lag between government price revisions and movements in crude price determines whether the industry gains or loses – depending on the direction of crude oil prices. Although natural gas can be considered a part of the petroleum products industry, we have excluded natural gas in this section as it would be more appropriate to discuss this sector under the industry linkages section.

2.1.2.2 Malaysian Petroleum Products Industry Profile

Petroleum plays an important role in the Malaysian economy. In 2002, mineral fuels and lubricants remained the second largest primary commodity export (RM5,236 million) earner after palm oil (RM6,259 million).[3] In 2002, Malaysia accounted for about 1.1% of the world's crude oil production.

2.1.2.3 Malaysian Petroleum Products Industry Structure

2.1.2.3.1 Upstream Activities

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 Malaysian National Oil Company), EMEPMI and the Shell group of companies (through companies such as Sarawak Shell, Shell Refining Company, Shell Sabah Selatan, Sabah Shell, Shell Oil and Gas Malaysia and Shell Malaysia Trading).

[3] Economic Report 2002/2003

PETRONAS and EMEPMI carry out exploration and crude oil production around the Peninsular – usually together. As mentioned earlier, PETRONAS' exploration arm is undertaken by Petronas Carigali and Petronas Dagangan Berhad ("PDB") undertakes the marketing of petroleum products.

Malaysia contains oil reserves of 4.54 billion barrels (including condensates) as at January 2003, including condensates, 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 6 months of 2003[4], 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[5], it was reported that Malaysia's crude oil production, including condensates averaged at 733,200 bbl/d. Overall production for the year 2003[6] 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. The table below shows crude oil production in Malaysia over the last 6 years:

Table 1 Crude Oil Production in Malaysia 1997-2002 (bbl/d)

	1997	1998	1999	2000	2001	2002
Average production	730,000	740,000	691,000	681,000	666,000	699,000

Source : Economic Report 2003/2004 (1999-2002 Data), The Star, Dynaquest Sdn Bhd

It is useful to note at this point that according to the API rating, Malaysia's crude oil varies from 45 (Tapis Blend) to 31 (Miri Light). The higher the degree, the lighter is the crude oil. Generally, crude oils with grades above 40 API are considered to be "very light" while those between 30 and 40 are said to be "light" while those below 22 API are referred to as heavy crudes. Generally, the lighter the crude the higher its price. Crude oil with low sulphur content is said to be "sweet" and commands a higher price than "sour" crude with higher sulphur content. The sulphur content in crude oil can vary from less than 0.1% in weight to as high as 7% in very sour crude. Malaysia's crude oil has sulphur content varying from as low as 0.03% for Bintulu crude to as high as 0.15% for Tapis Blend.

As a result of declining oil reserves, Petronas Carigali has embarked on an international exploration

[4] Economic Report 2003/2004
[5] Petronas Half Yearly Results for the Six Months Ended 30 September 2003.
[6] Economic Report 2003/2004

and production strategy. Due to such efforts by Petronas Carigali to go global over a decade ago to secure more reserves, Malaysia is well-placed to maintain an oil output of 700,000 barrels a day despite its depleting local reserves[7]. Currently, Petronas Carigali has invested in oil exploration and production projects in Syria, Turkmenistan, Iran, Pakistan, China, Vietnam, Burma, Algeria, Libya, Tunisia, Sudan, and Angola. Overseas operations now make up nearly one-third of Petronas Carigali's revenue. In 2001, Malaysia exported the 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.

Malaysia's domestic oil production occurs offshore and primarily near Peninsular Malaysia. Most of the country's oil fields contain low sulfur, high quality crude, with gravities in the 35°-50° API range. More than half of the country's oil production comes from the Tapis field, which contains 44° API oil with low sulfur content.

EMEPMI, one of the largest crude oil producer in Peninsular Malaysia, accounting for nearly half of Malaysia's crude oil production. This multi-national oil and gas company operates seven fields near the peninsula, and one-third of its production comes from the Seligi field. The Seligi-F platform, with its 28 wells, is the newest satellite in the Seligi field, located 165 miles off the coast of Terengganu, Peninsular Malaysia. Built at a cost of $155 million, Seligi-F is the seventh production platform on the Seligi field. The platform came on stream in March 1998 and is expected to produce an annual average of 21,000 bbl/d. This multi-national oil and gas company holds a 78% interest in the project with Petronas Carigali holding the remaining 22%. In addition, this multi-national oil and gas company began drilling the nearby Raya-A platform in the second quarter 1998. This multi-national oil and gas company has invested $96 million in six wells, and holds an 80% interest with Petronas Carigali holding the remaining 20%. This multi-national oil and gas company began production from the offshore Larut field in Block PM5 in early 2002, which is expected to reach peak production of 140,000 bbl/d, offsetting some of the future decline in Malaysia's production from mature fields.

In other developments, Sabah Shell Petroleum Company, a unit of Royal Dutch/Shell Group, raised production at the Kinabalu field to 36,000 bbl/d, as well as mmscf/d of gas. Production at Kinabalu, located in the SB-1 block 34 miles off the coast of Labuan, Sabah in East Malaysia, began in December 1997. As operator of the SB-1 block, Shell holds an 80% stake in the block, with Petronas Carigali holding a 20% stake.

In February 1998, Amerada Hess signed two, five-year PSCs with Petronas Cargali for blocks PM304 and SK306. The PSCs commit Amerada to $24.9 million of exploration activities on the two blocks. A successful well was reported in the PM 304 block in April 2001, but it is still under evaluation and a reserve estimate has not been announced. Under the PSCs, Amerada holds a 70% stake in PM304,

[7] The Star, 31 October, 2002.

offshore Terengganu, and an 80% stake in SK 306, offshore Sarawak, with Petronas Carigali holding the remaining interests in both blocks.

In February 2000, Sweden's Lundin Oil announced that it had signed a sales agreement with Petronas Carigali and PetroVietnam, which will allow it to proceed with development of its long-delayed Bunga Kekwa project. Production stood at 18,000 bbl/d in April 2001, and is expected to increase to a volume of 40,000 bbl/d when development is completed in 2003. Lundin Oil is the operator of the field, and Petronas Carigali and Petrovietnam hold equity stakes in the project. Murphy Oil reported a modest-sized new find in Block SK309 in shallow waters offshore from Sarawak in February 2002. Subsequently, in August and September 2003, Murphy Oil announced a significant new discoveries at the Kikeh Kecil wells number 1 and 5 respectively drilled in Block K, offshore Sabah, Malaysia. Thus, the US based oil explorer has discovered oil in three exploration wells off the Sabah coast in less than two years.

2.1.2.3.2 Downstream Activities

2.1.2.3.2.1 Refining

With a total licensed refining capacity of 465,000 bbl/d Malaysia is the third largest refining centre in the ASEAN region after Singapore and Indonesia. Malaysia's existing refining capacity is about 40% of Singapore's and about 55% of Indonesia's.

Malaysia has six refineries, with a total processing capacity of 514,500 bbl/d. The three largest are the 155,000 bbl/d Shell Port Dickson refinery and the PETRONAS Melaka-I and Melaka-II refineries, which each have a capacity of 95,000 bbl/d.

The second phase of the $1.4-billion, 200,000-bbl/d Melaka refinery complex, located about 90 miles south of Kuala Lumpur, commenced operation in August 1998. The 100,000-bbl/d Melaka-II second phase is a joint venture between PETRONAS (45%), Conoco (40%), and Statoil (15%). This second refinery contains a 62,000-bbl/d vacuum distillation unit, 26,000-bbl/d catalytic cracker, 28,500-bbl/d hydrocracker, 35,000-bbl/d desulfurization unit, and 21,000-bbl/d coker. One of the main purposes of this refinery is to supply gasoline to Conoco's service stations in Thailand and a new line of stations planned for Malaysia. The first phase of the Melaka refinery was finished in mid-1994 and consisted of a 100,000-bbl/d sweet crude distillation unit, which is wholly-owned by PETRONAS and processes Tapis crude oil.

2.1.2.3.2.2 Petroleum Products

The major petroleum products manufactured locally are fuel, oil, kerosene, diesel, gasoline, naphtha, LPG and jet fuel.

2.1.3 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 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.

2.2 Industry Outlook

Malaysia contains oil reserves of 4.54 billion barrels (including condensates) as at January 2003, including condensates, up from 4.24 billion barrels in 2002. During the first 6 months of 2003[8], 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[9], it was reported that Malaysia's crude oil production, including condensates averaged at 733,200 bbl/d. Overall production for the year 2003[10] is expected to increase by 2.4% with an average of 716,000 bbl/d based on the planned work programme for the year. 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. 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.[11]

The availability of oil and gas reserves will inevitably impact the growth of the industry, including its supporting sub-sectors. However, this is mitigated by the fact that there are new and improved technologies surfacing that can accommodate development in deepwater blocks, help to increase the recoverable reserves from existing oil fields and to assist in the exploration and discovery of new fields. Such developments can help boost existing reserves.

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 oil importer before the end of the

[8] Economic Report 2003/2004
[9] Petronas Half Yearly Results for the Six Months Ended 30 September 2003.
[10] Economic Report 2003/2004

current decade.

As a result of declining oil reserves, Petronas Carigali has embarked on an international exploration and production strategy. Currently, Petronas Carigali has invested in oil exploration and production projects in Syria, Turkmenistan, Iran, Pakistan, China, Vietnam, Burma, Algeria, Libya, Tunisia, Sudan, and Angola. Overseas operations now make up nearly one-third of Petronas Carigali's revenue. In 2001, Malaysia exported the 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.

Malaysia contains 89.0 tcf of natural gas reserves as at 1 January 2003. The average life for gas reserves is now 35 years as compared to 34 years in 2002. Malaysia's natural gas production for the last year increased marginally to 1.72 trillion standard cubic feet ("tscf"). Natural gas production has been rising steadily in recent years, reaching 1.63 tscf in 2001, up from 1.50 tscf and 1.42 tscf in 2000 and 1999 respectively.

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 the Asian financial crisis and the 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.

3.1 Economic Outlook

Following a series of adverse 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 IMF are as follows:

Table 2 World Economic Outlook – Real GDP Annual Percent Change

(%)	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

Source: IMF

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.

[11] Petronas Group Results for the Year Ended 31 March 2003

Concurrent data initially remained weak, with industrial production and trade growth slowing markedly in the second quarter, reflecting continued aftereffects 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.

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 labor 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%)[12]. 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.[13]

[12] Bank Negara Report 2002.
[13] Economic Report 2003/2004

3.1.1 The Malaysian Economy

3.1.1.1 Current[14]

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 incidences of militancy and outbreak of the Severe Acute Respiratory Syndrome ("SARS"). During the second quarter of 2003, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probably 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 ("Government") has put in place a package of broad-base pro-growth measures in May 2003. The Government's proactive stimulus package, 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 of 2003 and with prospects of sustained growth in the second half of 2003, the economy is set to achieve its targeted growth of 4.5% in 2003, higher than the 4.1% 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 2003. 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 commodity prices, positive wealth effect from better stock market performance as well as stimulus packages introduced in May 2003. 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

[14] Economic Report 2003/2004

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.[15]

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.[16]

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%.[17]

3.1.1.2 Longer Term Outlook[18]

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

[15] Economic Report 2003/2004
[16] Economic Report 2003/2004
[17] Economic Report 2003/2004
[18] Economic Report 2003/2004

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.[19]

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.

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

[19] Economic Report 2003/2004

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[20]. 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 203. 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.

[20] Mid-Term Review of the 8MP

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.

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.[21] 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.

4.1 Future Prospects

THE KST GROUP plans to expand its activities overseas in particular in the region where Petronas Carigali is actively involved in oil and gas exploration and production. For example, PETRONAS was awarded four PSCs by the Myanmar government in 2002[22]. 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.[23] 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[24]. As a result of increasing overseas activities, PETRONAS has accumulated

[21] Economic Report 2003/2004
[22] The Star, 20 August, 2002.
[23] Press Release issued by the Media Relations and Information Department of PETRONAS
[24] The Star, 8 January, 2003

international reserves of about 3.7 billion barrels of oil equivalent, including its share of reserves in the Malaysia-Thailand Joint Development Area (MTJDA).

With the proposed 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.

14. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

KEJURUTERAAN SAMUDRA TIMUR BERHAD
(COMPANY NO: 142241 X)

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28 January 2004

The Shareholders of
KEJURUTERAAN SAMUDRA TIMUR BERHAD

Dear Sir/Madam,

On behalf of the Board of Directors, I wish to report after due enquiry that between the period from 31 July 2003 (being the date to which the last audited financial statements of the Company and its subsidiary company ("Group") has been made up) to the date hereof (being a date not earlier than 14 days before the issuance of this Prospectus), that:-

a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;

b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of the Group which have adversely affected the business and operations or the value of the assets of the Group;

c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;

d) save as disclosed in the Accountants' Report no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary company;

e) to the best of my knowledge, since the last audited financial statements of the Group, there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/ or principal sums in relation to any borrowings; and

f) save as disclosed in the Accountants' Report and Proforma Balance Sheet, there have been no changes in the published reserves or any unusual factors affecting the profits of the Group since the last audited financial statements of the Group.

Yours faithfully,
For and on behalf of the Board of Directors
KEJURUTERAAN SAMUDRA TIMUR BERHAD

Dato' Chee Peck Kiat @ Chee Peck Jan
Executive Director

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