

Circular

Reference No **BB-040603-67268**

Company Name : **KNM GROUP BERHAD**

Stock Name : KNM

Date Announced : 03/06/2004

Subject : CIRCULAR TO SHAREHOLDERS in relation to the

.PROPOSED SHAREHOLDERS' RATIFICATION FOR
RECURRENT RELATED PARTY
TRANSACTIONS OF A REVENUE OR TRADING NATURE

.PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT
RELATED PARTY
TRANSACTIONS OF A REVENUE OR TRADING NATURE

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If you have sold or transferred all your ordinary shares in KNM Group Berhad (“KNM” or the “Company”), please hand this Circular together with the accompanying Form of Proxy, to the agent through whom the sale or transfer was contracted for onward transmission to the purchaser or transferee.

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KNM GROUP BERHAD

(Company No. 521348-H)

(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

- **PROPOSED SHAREHOLDERS' RATIFICATION FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**
- **PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

Notice of the Extraordinary General Meeting of the Company, which will be held at Kristal Ballroom 2, Level 1, East Wing, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on 17 June 2004 at 4.00 p.m. or immediately after the conclusion or adjournment (as the case may be) of the Second Annual General Meeting of the Company, which will be held at 3.00 p.m. at the same venue and on the same day, whichever is earlier, together with the accompanying Form of Proxy are set out in this Circular.

Please complete and return the enclosed Form of Proxy in accordance with the instructions therein as soon as possible. Your Form of Proxy must reach the Registered Office of the Company at 15 Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan not less than 48 hours before the time set for holding the meeting or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting should you subsequently wish to do so.

This Circular is dated 28 May 2004

The following abbreviations shall apply throughout this Circular unless the context otherwise requires -

Act	Companies Act, 1965
AGM	Annual General Meeting
Audit Committee	The audit committee established and appointed by the Board pursuant to Chapter 15, Part C of the Listing Requirements
Board or Director	The Board of Directors of KNM
EGM	Extraordinary General Meeting
HSBC	HSBC Nominees (Tempatan) Sdn Bhd - OSK-UOB Small Capital Opportunity
IM Bina	IM Bina Sdn Bhd
IMSB	Inter Merger Sdn Bhd
IMSB Group	IMSB and its subsidiary and associate companies
IMT	Inter Merger Trading Sdn Bhd
KNM or the Company	KNM Group Berhad
KNM Group	KNM and its subsidiary and associate companies
KNM -DP	KNM -DP Fabricators Sdn Bhd
Listing Date	11 August 2003.
Listing Requirements	Listing Requirements of Bursa Malaysia Securities Berhad
NTA	Net tangible assets
Persons Connected	Persons deemed to be connected with a Director or substantial shareholder pursuant to Section 122A of the Act.
Proposal	Proposed Shareholders' Mandate
Proposed Shareholders' Mandate	Proposed mandate to be given by the shareholders of KNM for the KNM Group to enter into the recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations and are in the ordinary course of business of the KNM Group, as set out in Section 4.2 of this Circular as well as to seek shareholders' ratification for transactions entered into as set out in Section 4.2.
Ratification	Means the ratification to be procured from the Company's shareholders for Recurrent Related Party Transaction(s) entered or to be entered from the Listing Date to the date of the Company's forthcoming EGM to be held on 17 June 2004.
Ratification Period	The period commencing from the Listing Date to the date of the Company's forthcoming EGM, to be held on 17 June 2004.
Related Party(ies)	A director, substantial shareholder or person connected with such director or substantial shareholder. For the purpose of this definition, "director" and "substantial shareholder" shall have the meanings given in paragraph 10.02 of the Listing Requirements.
Recurrent Related Party Transaction(s)	The recurring transaction(s) entered into or to be entered into by KNM or its subsidiaries which involve the interest, direct or indirect, of a Related Party.
RM and sen	Ringgit Malaysia and sen respectively
TKSB	Tegas Klasik Sdn Bhd
Transacting Parties	The company or companies transacting with the KNM Group for which the Proposed Shareholders' Mandate is sought.
Validity Period	Means the period commencing from the conclusion of the Company's forthcoming EGM to the date of the next AGM to be held in 2005.

Definitions of companies within the KNM Group

KNMPS	-	KNM Process Systems Sdn Bhd
KNMI	-	KNM International Sdn Bhd
KNM OGPET	-	KNM OGPET (East Coast) Sdn Bhd
PASB	-	Perwira Awan Sdn Bhd
DESB	-	Duraton Engineering Sdn Bhd
KNMOC	-	KNM Overseas (China) Sdn Bhd
KNMSPEC	-	KNM Special Process Equipment (Changshu) Co Ltd
KNM -DP	-	KNM -DP Fabricators Sdn Bhd
KNM -DP HB	-	KNM -DP Harta Bina Sdn Bhd

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KNM GROUP BERHAD

(Company No. 521348-H)
(Incorporated in Malaysia)

Registered Office:

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

28 May 2004

Directors :

YBhg Dato' Abdul Rani bin Mohd Razalli	(Executive Chairman)
Ir Lee Swee Eng	(Managing Director)
Lee Hui Leong	(Executive Director)
Sofiyani bin Yahya	(Executive Director)
Gan Siew Liat	(Executive Director)
Chew Fook Sin	(Executive Director)
Lim Yu Tey	(Senior Independent Non-Executive Director)
YBhg Dato' Ab. Halim bin Mohyiddin	(Independent Non-Executive Director)
Mohamed Tajudin bin Mohd Alias	(Independent Non-Executive Director)

To the Shareholders of KNM Group Berhad

Dear Sir/Madam,

PROPOSED SHAREHOLDERS' MANDATE FOR THE RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

1. INTRODUCTION

KNM announced on 24 May 2004 that it would be seeking a mandate from shareholders of KNM for the KNM Group to enter into Recurrent Related Party Transaction(s) of a revenue or trading nature, as set out in Section 4 hereafter, and ratification of the Recurrent Related Party Transaction(s) as explained in this paragraph 1.

KNM has applied to and obtained the approval of Bursa Malaysia Securities Berhad on 25 May 2004 for -

- (a) consent to obtain shareholders' ratification for Recurrent Related Party Transaction(s) entered or to be entered from the Listing Date to the date of the Company's forthcoming AGM to be held no later than 30 June 2004; and
- (b) an extension of time, from the Listing Date to the date of the Company's forthcoming AGM to be held no later than 30 June 2004, to procure shareholders' mandate in respect of Recurrent Related Party Transaction(s) to be entered from the period commencing from the conclusion of the Company's forthcoming AGM to the date of the next AGM to be held in 2005.

The purpose of this Circular is to provide shareholders with details pertaining to the Proposed Shareholders' Mandate, and to seek your approval for the resolutions to be tabled in the forthcoming EGM.

2. PARAGRAPH 10.09 OF THE LISTING REQUIREMENTS

Under Paragraph 10.09 of the Listing Requirements, where related party transactions of a revenue or trading nature are necessary for its day-to-day operations of the Company and its subsidiaries such as supplies of materials, the listed issuer may seek a shareholders' mandate in respect of such transactions subject to the following:

- 2.1 The transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public;

- 2.2 The shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the breakdown of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year based on the following information -
- 2.2.1 the type of Recurrent Related Party Transaction made;
 - 2.2.2 the names of the related parties involved in each type of the Recurrent Related Party Transaction made and their relationship with the company; and
- 2.3 The interested Directors, interested substantial shareholders or Persons Connected, and where it involves the interest of Persons Connected, such Director or substantial shareholder must not vote on the resolution approving the transactions. An interested Director or interested substantial shareholder must ensure that the Persons Connected abstain from voting on the resolution approving the transactions.

3. PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS

KNM is principally engaged in investment holding, while the principal activities of its subsidiaries and associate company are in designing, manufacturing, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries, provision of management, technical advisory, license and trademark services to international related companies and related international investments, provision of project manpower, engineering, non-destructive testing and technical consultancy services and property investment.

The subsidiaries and associated companies of KNM and their respective principal activities at the date of this Circular are -

Name	Date and place of incorporation	Effective equity interest %	Principal activities
Subsidiaries			
KNMPS	28.06.1990/ Malaysia	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries
KNMI	10.05.2002/ Malaysia	100	Provision of management, technical advisory, licence and trademark services to international related companies and related international investment
Subsidiary of KNMPS			
KNM OGPET	30.05.1994/ Malaysia	100	Fabrication and maintenance of oil, gas and petrochemical process equipment, storage tanks, modular assemblies and structural assemblies for oil, gas and petrochemical industries
PASB	17.10.1992/ Malaysia	100	Property investment
DESB	14.11.2000/ Malaysia	100	Provision of project manpower, engineering, non-destructive testing and technical consultancy services
Subsidiary of KNMI			
KNMOC	21.10.2002/ Malaysia	100	Investment holding
Subsidiary of KNMOC			
KNMSPEC	14.06.2002/ China	100	Design, manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialized structural assemblies and module assembling for the oil, gas and petrochemical industries within the market in China
Associate of KNMPS			
KNM-DP	22.01.1992/ Malaysia	28	Fabrication and maintenance of process equipment, storage tanks, modular assemblies and steel structural components for oil, gas and petrochemical industries
KNM-DP HB	24.09.1994/ Malaysia	49	Dormant (intended principal activity is property investment)
Subsidiary of KNM-DP			
KNM-DP HB	24.09.1994/ Malaysia	51	Dormant (intended principal activity is property investment)

KNM is seeking approval from its shareholders for the Proposed Shareholders' Mandate, which will allow the KNM Group, in its ordinary course of business, to enter into the categories of Recurrent Related Party Transactions referred to in Section 4 below with the classes of Related Parties set out in Section 4 below provided such transactions, if any, are in the opinion of your Directors (other than those deemed interested as disclosed in Section 4.1) made at arms length, on the KNM Group's normal commercial terms and on terms not more favourable to the Related Parties than those generally available to the public. The review procedures for the Recurrent Related Party Transactions are set out in Section 6 of this Circular.

The Proposed Shareholders' Mandate will take effect from the date of the passing of the Ordinary Resolution proposed at the forthcoming EGM and shall only continue to be in force until -

- 3.1 the conclusion of the next AGM of the Company following the forthcoming EGM at which time it will lapse, unless by a resolution passed at the AGM, the mandate is again renewed;
 - 3.2 the expiration of the period within which the next AGM after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
 - 3.3 revoked or varied by resolution passed by the shareholders of KNM in general meeting,
- whichever is the earlier.

4. CLASS AND NATURE OF RECURRENT RELATED PARTY TRANSACTIONS

4.1 Class of Related Parties

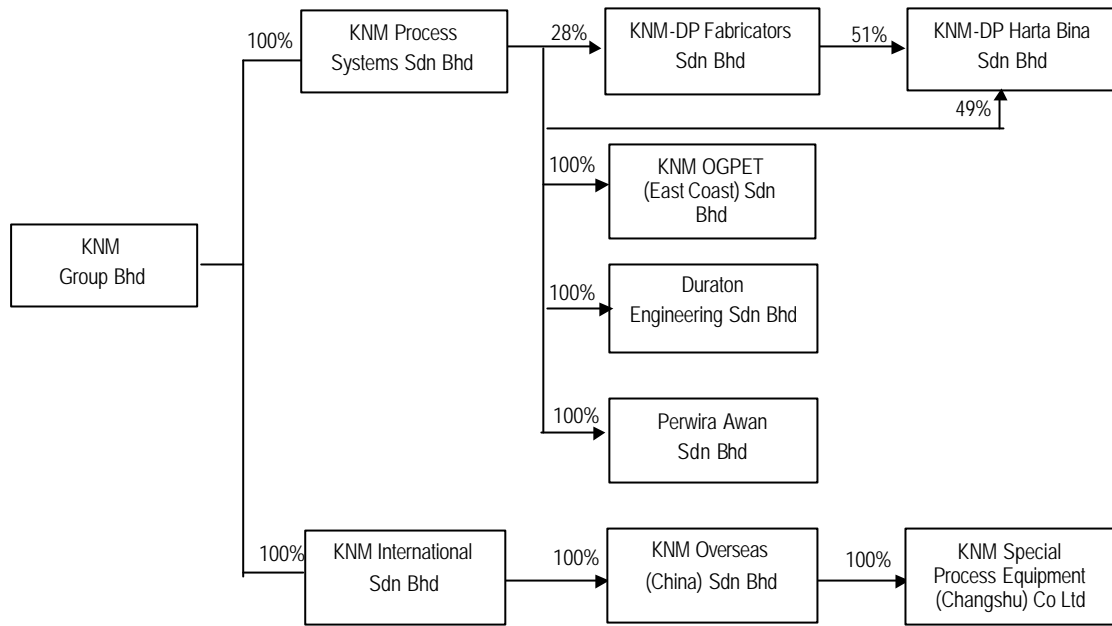
The Proposed Shareholders' Mandate shall apply to transactions as set out in Section 4.2 hereafter with the following Related Parties, for the financial year ended 2004 -

	Transacting Parties	Principal Activity	Date of incorporation / establishment	Issued and Paid-up capital (RM)	Period of business relationship with the KNM Group
1.	IMSB	Investment and provision of management and technical consultancy Services	17-Jun-1987	3.0 million	> than 10 yrs.
2.	KNM-DP	Fabrication and maintenance of equip., tanks for oil & gas industries	22-Jan-1992	528,570.00	> than 10 yrs.
3.	IMT	General merchants and agent for supplying of equip and accessories	03-Oct-1991	100,000.00	> than 10 yrs.
4.	IM Bina	Undertaking of civil construction and engineering works.	18-May-1990	1.0 million	> than 10 yrs.

Notes -

1. *IMSB is a substantial shareholder of KNM*
2. *KNM-DP is an indirect 28% associate company of KNM*
3. *IMT is a wholly-owned subsidiary of IMSB*
4. *IM Bina is a 80% subsidiary of IMSB*

The structure of the KNM Group is set out below -



The Interested Related Parties are as follows -

Interested Related Parties	Shareholding in KNM				Nature of Interest
	Direct		Indirect		
	No. of shares	%	No. of shares	%	
Dato' Abdul Rani bin Mohd Razalli	-	-	26,916,000	61.17	By virtue of his substantial shareholding in IMSB and TKSB, his directorship in IMSB and TKSB, his deemed substantial shareholding in KNM and his directorship in KNM and his deemed substantial shareholding in KNM -DP.
Ir Lee Swee Eng	-	-	26,916,000	61.17	By virtue of his substantial shareholding in IMSB, his directorship in IMSB, his deemed substantial shareholding in KNM and his directorship in KNM, his deemed substantial shareholding in KNM -DP and his directorship in KNM -DP.
Lee Hui Leong	-	-	3,247,091	7.38	By virtue of his substantial shareholding and directorship in TKSB, his deemed substantial shareholding in KNM and his directorship in KNM, his deemed substantial shareholding in KNM -DP and his directorship in KNM -DP.
Sofiyan bin Yahya	-	-	3,247,091	7.38	By virtue of his substantial shareholding and directorship in TKSB, his deemed substantial shareholding in KNM and his directorship in KNM, his deemed substantial shareholding in KNM -DP and his directorship in KNM -DP.
Gan Siew Liat	-	-	26,916,000	61.17	By virtue of her spouse, Ir Lee Swee Eng's interest in IMSB, and her directorship in KNM.
Chew Fook Sin	-	-	26,916,000	61.17	By virtue of his sister-in-law, Gan Siew Liat's indirect interest in IMSB, and his directorship in KNM.
IMSB	23,668,909	53.79	3,247,091	7.38	Substantial shareholder of KNM
TKSB	3,247,091	7.38	-	-	Substantial shareholder of KNM

4.2 Nature of the Recurrent Related Party Transactions

The Recurrent Related Party Transactions which are the subject of the Proposed Shareholders' Mandate are transactions by the KNM Group relating to the provision of, or the obtaining from, the Related Parties, services which are in the normal course of the business of the KNM Group, are as follows -

(1) Companies within the KNM Group transacting with the Transacting Parties	(2) Nature of transaction	(3) Transacting Parties	(4) Interested Related Party	(5) Value paid / (received) during the Ratification Period of the proposed shareholders ratification (RM)	(6) Estimated value payable / (receivable) during the Validity Period of the Proposed Shareholders Mandate (RM)
KNMPS	Actual office rental charge for corporate office	IMSB Landlord/provider of actual office rental charge for corporate office	Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat, Chew Fook Sin, IMSB and TKSB.	397,120	1,800,000.00
KNMPS	Provision of administrative expenses	IMSB Provider of actual office rental charge for corporate office	Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat, Chew Fook Sin, IMSB and TKSB.	91,598	1,000,000.00
KNMPS	Rental income receivable for the Melaka fabrication shop	KNM-DP Tenant at the Melaka fabrication shop	Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat, Chew Fook Sin, IMSB and TKSB.	-	480,585.00
KNMPS	Provision of fabrication works	KNM-DP Provider of fabrication works	Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat, Chew Fook Sin, IMSB and TKSB.	3,474,069	7,000,000.00
KNMPS	Purchases of production materials and fixed assets	IMT Supplier of production materials and fixed assets	Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Gan Siew Liat, Chew Fook Sin and IMSB.	158,120	1,000,000.00
KNMPS	Provision of contract of works for secured projects, construction of the Bintulu fabrication shop and expansion of the Melaka and Gebeng fabrication shops	IM Bina Provider of works for secured projects, construction of the Bintulu fabrication shop and expansion of the Melaka and Gebeng fabrication shops	Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Gan Siew Liat, Chew Fook Sin and IMSB.	8,049,243	10,000,000.00

5. **BENEFITS**

The KNM Group has a long-standing business relationship with the Transacting Parties. The services provided by and/or supplied to the Transacting Parties are in the view of your Directors (other than those deemed interested as disclosed in Section 4.1) and Audit Committee priced competitively and all transactions between KNM Group and the Transacting Parties are carried out on an arms-length basis.

Although the KNM Group also sources and/or supply similar services from/to third parties, the KNM Group proposes to seek shareholders' mandate as the close co-operation with the Transacting Parties is in the view of your Directors (other than those deemed interested as disclosed in Section 4.1) expected to continue to be of benefit to the KNM Group.

Some of the key benefits which are in view of your Directors (other than those deemed interested as disclosed in Section 4.1) derived from the transactions are as follows -

(a) Actual office rental charge for corporate office

The KNM Group requires office premises to house its operations. As IMSB offers office space which are in view of your Directors (other than those deemed interested as disclosed in Section 4.1) is in the right vicinity and of desired quality yet meeting the cost-effective operating reasons, the KNM Group entered into Tenancy Agreements dated 21 November 2000 with renewals to date with IMSB to rent at rates not exceeding RM3.50 per square feet for office space at Nos. 13 to 19, Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, which is a commercial development located in Seri Kembangan. Rates formulation have taken into account factors like quality renovation, air-conditioning, furnishings and fittings being provided for. Based on the above, in view of your Directors (other than those deemed interested as disclosed in Section 4.1), the rental rates are financially fair and reasonable.

(b) Provision of administrative expenses

IMSB, being the owner of the office premises described above provides utility, maintenance and related professional services, including telephone, fax lines, electricity and water. Such charges represent purely disbursements that are re-chargeable periodically to the KNM Group, calculated based on actual sale revenue achieved, with no profit mark-up on such charges. The re-charging to the KNM Group is common and necessary to reflect the usage by the KNM Group for its daily operations and business activity. The basis of charging is in view of your Directors (other than those deemed interested as disclosed in Section 4.1) financially fair and equitable.

(c) Rental Income receivable for the Melaka fabrication shop

KNM-DP requires fabrication area and office premises to house its fabrication process and production operations, while KNMPS is able to offer such fabrication area and office premises which are in view of your Directors (other than those deemed interested as disclosed in Section 4.1) is in a suitable vicinity for logistics, industrial and cost reasons, within an industrial estate, adjacent to refinery plants of major oil and gas industrial companies such as Shell and Petronas, and close to port facilities, amongst others. The rental for the fabrication shop has been budgeted at a monthly rate that is competitive in comparison within the industrial area in which the fabrication area and office premises is located. The plant area affords approximately 40,502 square metres and total covered area of the shop is 13,169 square metres. In view of the above, the estimated rate is regarded by the Directors (other than those deemed interested as disclosed in Section 4.1) as financially fair and equitable.

(d) Purchases of production materials and fixed assets

IMT is a trading company that professionally sources and supplies production materials and fixed assets in the most competitive and cost effective manner for the KNM Group. IMT adopts a focused and specialised methodology and process of sourcing competitively, including using commercial bids evaluation methods and capitalising on amongst others, economies of scale orders and centralising its procurement and distribution functions to enable it to lower purchase prices for the mutual benefit of both parties. A very minimal percentage profit mark-up is imposed in certain cases where appropriate on re-sale to the KNM Group to represent consideration for such services. This ensures the pricing to the KNM Group is always low and competitive in comparison to the general market. However, in some case, where transactions are unable to meet competitive pricing objectives, no mark-up is imposed on such sale transactions with the KNM Group. In addition, IMT has since been part of a focused, synergistic relationship with the KNM group. The Directors (other than those deemed interested as disclosed in Section 4.1) have considered all factors above to ensure such transactions and prices are made at arm's range and hence it is financially fair and acceptable.

(e) Provision of contract of works for secured projects, construction of the Bintulu fabrication shop and expansion of the Melaka and Gebeng fabrication shops

IM Bina is a company involved in providing civil engineering work for the KNM Group. IM Bina functions in a similar capacity and concept as IMT above, where focused and specialised delivery of professional services is emphasized. The pricing is arm-length based, having regards to stringent demand and tight schedule factors as required by KNM group. The profit margin is variable and low so that such transaction is favourable to KNM group on a symbiotic basis while still cost effective to KNM group. The Directors (other than those deemed interested as disclosed in Section 4.1) have considered all factors above to ensure such transactions and prices are made at arm's range and hence it is financially fair and acceptable.

6. REVIEW PROCEDURES

The following review and approval procedures are in place to ensure that Recurrent Related Party Transactions are undertaken on an arm's length basis and on commercial terms consistent with the KNM Group's usual business practices and policies, which are no more favourable to the Related Parties than those extended to third parties/public and, are not detrimental to KNM's minority shareholders -

- 6.1 A list of Recurrent Related Party Transactions will be circulated to the Audit Committee for review to ensure that the transactions entered into are on arms length basis, based on commercial terms and are not more favourable to the related party than those generally available to the public and, are not detrimental to KNM's minority shareholders.
- 6.2 The Audit Committee will also review conflict of interest situations that may arise within the KNM Group as a result of the Recurrent Related Party Transactions.
- 6.3 Such reviews will be conducted on a quarterly basis together with the review of quarterly results, or such other frequency as the Audit Committee may consider appropriate.
- 6.4 If a member of the Audit Committee has an interest in the Recurrent Related Party Transactions, he will abstain from any decision making by the Audit Committee in respect of such transactions.
- 6.5 The annual internal audit plan will incorporate a review of all Recurrent Related Party Transactions in its corporate governance audit to ensure that the review procedures in respect of such transactions are adhered to.
- 6.6 The Audit Committee will report its review of all Recurrent Related Party Transactions to the Board.

The procedure set out in paragraphs 6.1 to 6.4 is undertaken by the Board.

7. FINANCIAL EFFECTS

Save as disclosed in Section 4 of this Circular, the Proposed Shareholders' Mandate will not have any financial effect on the earnings, share capital, net tangible assets and shareholding structure of the KNM Group.

8. STATEMENT FROM THE AUDIT COMMITTEE

The Audit Committee has seen and reviewed the procedures mentioned in Section 6 above and is of the view that the said procedures are sufficient to ensure that the Recurrent Related Party Transactions are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders.

9. RATIONALE FOR THE PROPOSAL

The Recurrent Related Party Transactions entered or to be entered into by the KNM Group are all in the ordinary course of business. They are recurring transactions of a revenue or trading nature which are likely to occur with some degree of frequency and arise at any time and from time to time. These transactions may be constrained by the time-sensitive nature and confidentiality of the same may render it impractical to seek shareholders' approval on a case by case basis before entering into such related party transactions.

As such, KNM is seeking a shareholders' mandate pursuant to Paragraph 10.09 of the Listing Requirements for the Recurrent Related Party Transactions described in Section 4.2 above to allow the KNM Group to enter into such Recurrent Related Party Transactions on an arm's length basis and on normal commercial terms and which are not prejudicial to the interests of KNM's shareholders. By obtaining the Proposed Shareholders' Mandate and the renewal of the same on an annual basis, the necessity to convene separate general meetings from time to time to seek shareholders' approval as and when such Recurrent Related Party Transactions occur, would not arise. This would reduce substantial administrative time, inconvenience and expenses associated with the convening of such meetings, without compromising the corporate objectives of the KNM Group or adversely affecting the business opportunities available to the KNM Group.

10. CONDITIONS OF THE PROPOSAL

The Proposed Shareholders' Mandate is conditional upon the approval of the shareholders of KNM being obtained at the forthcoming EGM.

11. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save as disclosed in Section 4, none of the other Directors and substantial shareholders of KNM or Persons Connected have any interest in the Proposed Shareholders' Mandate. The Interested Directors namely Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat and Chew Fook Sin have abstained from Board deliberations of the Proposed Shareholders' Mandate in respect of the transactions in which they have an interest as particularised in Section 4.2 above. The interested Directors and substantial shareholders, namely Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat and Chew Fook Sin, IMSB and TKSB, will abstain from voting on the resolutions at the EGM and ensure that Persons Connected will abstain from voting in respect of their direct and indirect shareholding on the resolution approving the Proposed Shareholders' Mandate in respect of the transactions in which they have an interest as particularised in Section 4.2 above.

12. DIRECTORS' RECOMMENDATION

Having considered the rationale for the Proposal, your Board of Directors (with the exception of Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat and Chew Fook Sin who are deemed interested in the Proposed Shareholder's Mandate and have abstained from giving any opinion in respect of the Proposed Shareholders' Mandate) is of the opinion that the Proposal is fair, reasonable and in the best interest of the shareholders and the Company.

Accordingly, your Directors, with the exception of Dato' Abdul Rani bin Mohd Razalli, Ir Lee Swee Eng, Lee Hui Leong, Sofiyan bin Yahya, Gan Siew Liat and Chew Fook Sin who have abstained from making a recommendation on the Proposed Shareholders' Mandate in respect of the transactions in which they have an interest as particularised in Section 4.2 above, recommend that you vote in favour of the resolutions on the Proposal to be tabled at the forthcoming EGM.

13. EGM

The EGM, the notice of which is enclosed in this Circular, will be held at Kristal Ballroom 2, Level 1, East Wing, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on 17 June 2004 at 4.00 p.m. or immediately after the conclusion or adjournment (as the case may be) of the Second Annual General Meeting of the Company, which will be held at 3.00 p.m. at the same venue and on the same day, whichever is earlier, for the purpose of considering and if thought fit, passing the resolutions to give effect to the Proposed Shareholders' Mandate contained herein, and if thought fit, passing the resolution so as to give effect to the Proposed Shareholders' Mandate.

If you are unable to attend and vote in person at the EGM, you should complete and return the enclosed Form of Proxy in accordance with the instructions therein to the Registered Office of the Company at 15 Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, as soon as possible and in any event not later than 48 hours before the time fixed for the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

14. FURTHER INFORMATION

Shareholders are requested to refer to the attached Appendix I for further information.

Yours faithfully,
For and on behalf of the Board of Directors
KNM Group Berhad

Dato' Ab. Halim bin Mohyiddin
Independent Director

1. RESPONSIBILITY STATEMENT

This Circular has been approved by the Directors of KNM and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

2. MATERIAL CONTRACTS

There are no other material contracts (not being contracts entered into in the ordinary course of business) that has been entered by KNM and/or its subsidiaries during the 2 years immediately preceding the date of this Circular.

3. MATERIAL LITIGATION

Neither KNM nor its subsidiary companies are involved in any material litigation, claims or arbitration, either as plaintiff, defendant, appellant or respondent, and at the date of this Circular, the Directors of KNM do not have any knowledge of any proceedings, pending or threatened, against KNM or its subsidiaries or of any facts likely to give rise to any proceedings which may materially affect the position or business of the KNM Group.

4. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Registered Office of the Company at 15 Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, during normal business hours from Mondays to Fridays but excluding public holidays for the period commencing from the date of this Circular to the date of the forthcoming EGM -

- 4.1 Memorandum and Articles of Association of KNM; and
- 4.2 the audited accounts of the Company for the past two financial years ended 31 December 2002 and 31 December 2003 as well as unaudited financial results for the first quarter ended 31 March 2004.



KNM GROUP BERHAD

(Incorporated in Malaysia under the Companies Act, 1965)
(Company No.: 521348-H)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of KNM Group Berhad (“KNM” or the “Company”) will be held at Kristal Ballroom 2, Level 1, East Wing, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on 17 June 2004 at 4.00 p.m., or immediately after the conclusion or adjournment (as the case may be) of the Second Annual General Meeting of the Company, which will be held at 3.00 p.m. at the same venue and on the same day, whichever is earlier, for the purpose of considering, and if thought fit, passing with or without any modifications, the following resolutions -

ORDINARY RESOLUTION 1

Proposed Shareholders’ Ratification for Recurrent Related Party Transactions of a Revenue Nature (“Proposed Shareholders’ Ratification”)

That pursuant to paragraph 10.09 of the Listing Requirements of the Bursa Malaysia Securities Berhad, the Recurrent Related Party Transaction(s) entered into between the Listing Date to the date of the Company’s EGM which will be held on 17 June 2004, as specified in Section 4.2 of the Circular to Shareholders dated 28 May 2004 be and are hereby ratified.

ORDINARY RESOLUTION 2

Proposed Shareholders’ Mandate for Recurrent Related Party Transactions of a Revenue Nature (“Proposed Shareholders’ Mandate”)

THAT pursuant to paragraph 10.09 of the Listing Requirements of the Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its subsidiaries to enter into all arrangements and/or transactions with any interested Director, interested substantial shareholders or Persons Connected as stated in paragraph 4.2 of the Circular to Shareholders dated 28 May 2004 provided that such arrangements and/or transactions are -

1. recurrent transactions of a revenue or trading nature;
2. necessary for day-to-day operations;
3. in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders; and
4. disclosure of the aggregate value of transactions of the Proposed Mandate conducted during a financial year will be made in the annual report for the said financial year

AND THAT the arrangements and/or transactions as stated in paragraph 4.2 of the Circular to Shareholders dated 28 May 2004 be and are hereby approved and that such approval shall continue to be in force until the earlier of -

- (a) the conclusion of the next AGM of the Company following the forthcoming AGM at which time it will lapse unless the mandate is renewed by a resolution passed at the AGM;
- (b) the expiration of the period within the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 143(1) of the Act but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act; or
- (c) revoked or varied by resolution passed by the Shareholders in an AGM or an EGM.

AND FINALLY THAT the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things, including executing such documents as may be required by the relevant authorities, to give effect to the transactions contemplated and/or authorised by this resolution AND THAT the estimates given of the transactions specified in Section 4.2 of the Circular being provisional in nature, the Directors and/or any of them be and are hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with that set out in Section 4.2 of the Circular.

By Order of the Board,

Chia Kwok Why (MAICSA 7005833)
Yeoh Seng Chong (LS 006878)
Company Secretaries

Seri Kembangan
28 May 2004

Notes:

1. *A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote in his/her stead.*
2. *A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Act shall not apply to the Company.*
3. *The instrument appointing a proxy or proxies must be in writing under the hand of the appointor or his/her attorney duly authorized in writing or if such appointee is a corporation, the instrument appointing a proxy or proxies must be executed under its common seal or under the hand of an officer or attorney of the corporation and must be deposited at the Registered Office of the Company at 15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.*
4. *Where a member appoints more than 1 proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.*



KNM GROUP BERHAD
(Incorporated in Malaysia under the Companies Act, 1965)
(Company No.: 521348-H)

PROXY FORM

I / WE,
(FULL NAME IN BLOCK LETTERS)

of
(FULL ADDRESS IN BLOCK LETTERS)

being a member / members of KNM GROUP BERHAD, hereby appoint
.....
(FULL NAME IN BLOCK LETTERS)

of
(FULL ADDRESS IN BLOCK LETTERS)

or failing him/her, the Chairman of the Meeting, as my / our proxy to attend and to vote for me / us on my / our behalf at the Extraordinary General Meeting of the Company to be held at Kristal Ballroom 2, Level 1, East Wing, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on 17 June 2004 at 4.00 p.m., or immediately after the conclusion or adjournment (as the case may be) of the Second Annual General Meeting of the Company, which will be held at 3.00 p.m. at the same venue and on the same day, whichever is earlier or at any adjournment thereof in respect of my/our holdings of shares in the manner indicated below -

NO.	ORDINARY RESOLUTION	FOR	AGAINST
1.	PROPOSED SHAREHOLDERS' RATIFICATION		
2.	PROPOSED SHAREHOLDERS' MANDATE		

(Please indicate with an "X" in the spaces provided how you wish your proxy / proxies to vote. If you do not do so, this form will be taken to authorise the proxy / proxies to vote or abstain from voting as he / she thinks fit).

.....
Signature of Shareholder or Common Seal

NO. OF SHARES HELD

Dated this day of, 2004.

Notes:

1. A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote in his/her stead.
2. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Act shall not apply to the Company.
3. The instrument appointing a proxy or proxies must be in writing under the hand of the appointor or his/her attorney duly authorized in writing or if such appointee is a corporation, the instrument appointing a proxy or proxies must be executed under its common seal or under the hand of an officer or attorney of the corporation and must be deposited at the Registered Office of the Company at 15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
4. Where a member appoints more than 1 proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.