

Circular

Reference No **GR-050922-57874**

Company Name : **KNM GROUP BERHAD**

Stock Name : KNM

Date Announced : 22/09/2005

Subject : **INTRODUCTORY CIRCULAR IN RELATION TO THE
TRANSFER OF THE LISTING OF AND QUOTATION FOR THE
ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF KNM
GROUP BERHAD FROM THE SECOND BOARD TO THE MAIN
BOARD OF BURSA MALAYSIA SECURITIES BERHAD**

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THIS INTRODUCTORY CIRCULAR IS FOR YOUR INFORMATION ONLY. NO ACTION IS REQUIRED TO BE TAKEN.

If you have sold or transferred all your ordinary shares in KNM Group Berhad, you should at once send this Introductory Circular to the agent through whom the sale or transfer was contracted for onward transmission to the purchaser or transferee.

The approval of the Securities Commission ("SC") and Bursa Malaysia Securities Berhad ("Bursa Securities") for the Transfer Listing (as defined herein) shall not be taken to indicate that the SC and Bursa Securities recommend the Transfer Listing.

Bursa Securities has not perused this Introductory Circular. The SC and Bursa Securities take no responsibility for the contents of this Introductory Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Introductory Circular.



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

INTRODUCTORY CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

**TRANSFER OF THE LISTING OF AND QUOTATION FOR THE ENTIRE
ISSUED AND PAID-UP SHARE CAPITAL OF KNM GROUP BERHAD
FROM THE SECOND BOARD TO THE MAIN BOARD OF BURSA
MALAYSIA SECURITIES BERHAD**

Advised by



AVENUE SECURITIES SDN BHD (682-X)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
(Wholly-Owned Subsidiary of Avenue Capital Resources Berhad)

This Introductory Circular is dated 22 September 2005

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Introductory Circular:

“Act”	: Companies Act, 1965, as amended from time to time and any re-enactment thereof
“AED”	: United Arab Emirates Dirham, the lawful currency of the United Arab Emirates
“Avenue”	: Avenue Securities Sdn Bhd
“Board”	: Board of Directors of KNM
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“CDS”	: Central Depository System
“EPS”	: Earnings per share
“Euro”	: Euro Dollar
“IMSB”	: Inter Merger Sdn Bhd, a substantial shareholder of KNM
“KNM” or the “Company”	: KNM Group Berhad
“KNM Group” or the “Group”	: KNM, its subsidiaries and associated companies
“KNM Shares” or “Shares”	: Ordinary shares of RM0.50 each in KNM
“KNMI”	: KNM International Sdn Bhd, a wholly-owned subsidiary of KNM
“KNMPS”	: KNM Process Systems Sdn Bhd, a wholly-owned subsidiary of KNM
“Listing Requirements”	: Bursa Malaysia Securities Listing Requirements
“NTA”	: Net tangible assets
“PAT”	: Profit after taxation
“RM” and “sen”	: Ringgit Malaysia and sen respectively
“SC”	: Securities Commission
“SC Guidelines”	: Policies and Guidelines on Issue/Offer of Securities issued by the SC
“TKSB”	: Tegas Klasik Sdn Bhd, a shareholder of KNM
“Transfer Listing”	: The transfer of the listing of and quotation for the entire issued and paid-up share capital of KNM from the Second Board to the Main Board of Bursa Securities
“USD”	: United States Dollar

Words denoting the singular only shall include the plural and vice versa. Words denoting the masculine gender only shall include the feminine gender and vice versa.

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KNM GROUP BERHAD

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

Registered Office:

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

22 September 2005

Board of Directors:

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

To: The Shareholders of KNM Group Berhad

Dear Sir/Madam,

TRANSFER OF THE LISTING OF AND QUOTATION FOR THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF KNM GROUP BERHAD FROM THE SECOND BOARD TO THE MAIN BOARD OF BURSA MALAYSIA SECURITIES BERHAD

1. INTRODUCTION

On 20 September 2004, Avenue announced, on behalf of the Board, that KNM proposed to transfer the listing of and quotation for its entire issued and paid-up share capital from the Second Board to the Main Board of Bursa Securities. However, on 20 December 2004, Avenue announced that the Board resolved to put on hold the Transfer Listing pending the finalisation of the audited financial statements of KNM for the financial year ended 31 December 2004.

On 20 April 2005, KNM issued its audited financial statements for the financial year ended 31 December 2004.

On 15 September 2005, Avenue announced on behalf of the Board that the SC, vide its letter dated 14 September 2005 (received on 15 September 2005), approved the Transfer Listing under Section 32(5) of the Securities Commission Act, 1993. The SC's approval is subject to the condition that Avenue and KNM should fully comply with the relevant requirements of the SC Guidelines pertaining to the implementation of the Transfer Listing.

On 20 September 2005, Avenue announced on behalf of the Board that Bursa Securities had, vide its letter dated 16 September 2005, approved in-principle the Transfer Listing.

THE PURPOSE OF THIS INTRODUCTORY CIRCULAR IS TO PROVIDE YOU WITH DETAILS OF THE TRANSFER LISTING AND IS INTENDED FOR YOUR INFORMATION ONLY. NO ACTION IS REQUIRED ON YOUR PART.

2. DETAILS OF THE TRANSFER LISTING

The Transfer Listing entails the transfer of the listing of and the quotation for the entire issued and paid-up share capital of the Company from the Second Board to the Main Board of Bursa Securities. As at 9 September 2005, the Company's authorised share capital stood at RM200,000,000 comprising 400,000,000 KNM Shares, of which 147,696,500 KNM Shares have been issued and fully paid-up.

KNM has met the requirements set by the SC and Bursa Securities in relation to the Transfer Listing as follows:

(a) Minimum period of listing

KNM was listed on the Second Board of Bursa Securities on 11 August 2003. Accordingly, KNM has met the criterion that a company must be listed for at least one (1) year on the Second Board of Bursa Securities before that company can be transferred to the Main Board of Bursa Securities.

(b) Issued and paid-up share capital

As at 9 September 2005, KNM has an issued and paid-up share capital of RM73,848,250 comprising 147,696,500 ordinary shares of RM0.50 each, which is above the minimum issued and paid-up share capital of RM60,000,000 comprising ordinary shares of at least RM0.10 each as required by Bursa Securities for a company to be listed on the Main Board of Bursa Securities.

(c) Public shareholding spread

KNM's Record of Depositors as at 9 September 2005 shows that 103,899,773 KNM Shares, representing approximately 70.35% of the issued and paid-up share capital of KNM, held by 1,518 public shareholders (as defined in the Listing Requirements) holding not less than 100 KNM Shares each. KNM has therefore met the shareholding spread requirement set by Bursa Securities that at least 25% of the issued and paid-up share capital is in the hands of a minimum of 1,000 public shareholders holding not less than 100 shares each.

(d) Profit track record

Under the SC Guidelines, a company seeking transfer to the Main Board of Bursa Securities should have an after-tax profit record of three (3) to five (5) full financial years, with an aggregate after-tax profit of not less than RM30 million over the said period and an after-tax profit of not less than RM8 million in respect of the most recent financial year.

The audited consolidated PAT of the Group over the past five (5) financial years ended 31 December 2004 is as follows:-

Financial year ended 31 December	RM'000
2000 *	8,505
2001 *	6,405
2002 *	8,271
2003 #	^ 4,746
2004	14,466
Total	42,393

Note:-

* Based on the proforma consolidated PAT extracted from the Accountants' Report dated 20 June 2003 prepared by KPMG and disclosed in KNM's listing prospectus dated 27 June 2003, based on the assumption that the current structure of the Group has been in existence throughout the period under review.

^ After deducting negative goodwill of RM20.829 million.

Based on the audited financial results of the KNM Group for the eight (8)-month period ended 31 December 2003. The KNM Group was formed on 2 May 2003 with the completion of the acquisition of KNMPS.

Based on the above, KNM has met the above requirements of the SC Guidelines that a company to be listed on the Main Board of Bursa Securities should have an aggregate after-tax profit record for the past three (3) to five (5) full financial years of not less than RM30 million over the said financial years and an audited after-tax profit of not less than RM8 million in respect of the most recent financial year.

3. RATIONALE FOR THE TRANSFER LISTING

The rationale for the Transfer Listing is as follows:

- (i) to enhance the KNM Group's prestige, reputation, credit standing, recognition and prominence amongst investors, business partners, associates, customers, suppliers, bankers and peers; and
- (ii) to encourage greater participation from institutional investors in the equity of KNM.

4. FINANCIAL EFFECTS OF THE TRANSFER LISTING

The Transfer Listing will not have any effect on the issued and paid-up share capital, substantial shareholdings, consolidated NTA, consolidated earnings or dividends of KNM.

5. CONDITIONS FOR THE TRANSFER LISTING

The Transfer Listing is subject to the following:-

- (a) approval of the SC, of which was obtained vide its letter dated 14 September 2005 and is subject to the condition that Avenue and KNM should fully comply with the relevant requirements of the SC Guidelines pertaining to the implementation of the Transfer Listing; and
- (b) approval-in-principle of Bursa Securities, of which was obtained on 16 September 2005. The Transfer Listing will take place immediately two (2) clear market days after the following:
 - (i) confirmation of placement of a box advertisement of the Transfer Listing in a widely circulated Bahasa Malaysia and English newspaper;
 - (ii) receipt of thirty (30) printed copies of the Introductory Circular and a soft copy in the PDF file format;
 - (iii) confirmation from the adviser that all conditions, including conditions imposed by the relevant authorities which are required to be met prior to the Transfer Listing have been met;
 - (iv) confirmation from the adviser that there are no circumstances or facts which have the effect of preventing or prohibiting the Transfer Listing including any order, injunction or any other directive issued by any court of law; and
 - (v) payment of the initial listing fee and annual listing fee.

6. ADDITIONAL INFORMATION

Shareholders are requested to refer to the enclosed appendices for additional information.

Yours faithfully
for and on behalf of the Board of Directors
KNM GROUP BERHAD

Y Bhg. Dato' Abdul Rani bin Mohd Razalli
Executive Chairman

INFORMATION ON KNM

1. HISTORY AND BUSINESS

KNM was incorporated in Malaysia as a private limited company under the Act on 22 July 2000 and was subsequently converted into a public limited company on 12 September 2000. The Company was listed on the Second Board of Bursa Securities on 11 August 2003.

The principal activity of KNM is investment holding while its subsidiaries and associated companies are generally involved in the design, manufacture, 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, petrochemicals and minerals mining industries.

The Group's current principal market covers North America, South America, Europe, Africa, West Asia, East Asia, Australia and Oceania. As at 31 December 2004, export markets contribute approximately 74% of total orders in hand in terms of value.

KNM operates out of its head office at Taman Sungei Besi Indah, Seri Kembangan, Selangor Darul Ehsan which houses the corporate management, finance, engineering, procurement and project management staffs and seven (7) manufacturing plants in Melaka, Gebeng, Kuantan Port, Bintulu, Shah Alam, Changshu in China and Dubai in the United Arab Emirates.

2. SHARE CAPITAL

The authorised and issued and fully paid-up share capital of KNM as at 9 September 2005 are as follows:

	No. of shares	Par value RM	Total RM
Authorised share capital			
Ordinary shares	400,000,000	0.50	200,000,000
Issued and fully paid-up share capital			
Ordinary shares	147,696,500	0.50	73,848,250

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

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
22.07.00	2	1.00	Subscribers' shares	2
02.05.03	28,253,182	1.00	Shares issued in consideration for the acquisition of KNMPS	28,253,184
20.06.03	4,666,816	1.00	Rights issue of 4,666,816 new ordinary shares of RM1.00 each at par	32,920,000
29.07.03	4,400,000	1.00	Placement at an issue price of RM1.48 per share	37,320,000
29.07.03	6,680,000	1.00	Public issue at an issue price of RM1.48 per share	44,000,000

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Date of allotment	No. of ordinary shares allotted	Par value	Consideration/Type of issue	Total issued and paid-up share capital
24.08.04	4,400,000	1.00	Public issue at an issue price of RM3.50 per share	48,400,000
13.09.04	48,400,000	0.50	(i) Subdivision of every one (1) ordinary share of RM1.00 each into two (2) ordinary shares of RM0.50 each in KNM ("Subdivided Shares") (ii) Bonus issue of 48,400,000 new ordinary shares of RM0.50 each on the basis of one (1) new ordinary share of RM0.50 each for every two (2) Subdivided Shares held	72,600,000
13.10.04	178,100	0.50	Exercise of Employees' Share Option Scheme ("ESOS") options	72,689,050
18.11.04	125,200	0.50	Exercise of ESOS options	72,751,650
29.11.04	332,700	0.50	Exercise of ESOS options	72,918,000
22.12.04	75,700	0.50	Exercise of ESOS options	72,955,850
03.01.05	830,300	0.50	Exercise of ESOS options	73,371,000
13.01.05	123,600	0.50	Exercise of ESOS options	73,432,800
04.02.05	250,300	0.50	Exercise of ESOS options	73,557,950
21.02.05	195,000	0.50	Exercise of ESOS options	73,655,450
21.03.05	137,100	0.50	Exercise of ESOS options	73,724,000
20.04.05	81,100	0.50	Exercise of ESOS options	73,764,550
07.06.05	22,400	0.50	Exercise of ESOS options	73,775,750
16.06.05	34,700	0.50	Exercise of ESOS options	73,793,100
16.08.05	35,100	0.50	Exercise of ESOS options	73,810,650
07.09.05	75,200	0.50	Exercise of ESOS options	73,848,250

3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders' shareholdings in KNM as at 9 September 2005 are as follows:

Shareholders	Nationality /Country of incorporation	<-----Direct----->		<-----Indirect----->	
		No. of Shares	% held	No. of Shares	% held
IMSB	Malaysia	42,956,727	29.08	ⁱ 3,991,273	2.70
Perkasa Sistem Sdn Bhd	Malaysia	-	-	ⁱⁱ 46,948,000	31.79
Y Bhg. Dato' Abdul Rani bin Mohd Razalli	Malaysian	-	-	ⁱⁱⁱ 46,948,000	31.79
Ir Lee Swee Eng	Malaysian	300,000	0.20	ⁱⁱⁱ 46,948,000	31.79
Gan Siew Liat	Malaysian	180,000	0.12	^{iv} 46,948,000	31.79
Chew Fook Sin	Malaysian	180,000	0.12	^v 46,948,000	31.79

Notes:

- i* Deemed interest by virtue of its interest in TKS B pursuant to Section 6A of the Act.
- ii* Deemed interest by virtue of its interest in IMSB pursuant to Section 6A of the Act.
- iii* Deemed interest by virtue of his interest in Perkasa Sistem Sdn Bhd pursuant to Section 6A of the Act.
- iv* Deemed interest by virtue of her interest and her spouse, Ir Lee Swee Eng's interest in Perkasa Sistem Sdn Bhd pursuant to Section 6A of the Act.
- v* Deemed interest by virtue of his sister-in-law, Gan Siew Liat's indirect interest in Perkasa Sistem Sdn Bhd pursuant to Section 6A of the Act.

4. DIRECTORS

Details of the Directors' shareholdings in KNM as at 9 September 2005 based on the Register of Directors are as follows:

Name	Nationality	----- Direct -----		-----Indirect -----	
		No. of Shares held	%	No. of Shares held	%
Y Bhg. Dato' Abdul Rani bin Mohd Razalli	Malaysian	-	-	ⁱ 46,948,000	31.79
Ir Lee Swee Eng	Malaysian	300,000	0.20	ⁱ 46,948,000	31.79
Lim Yu Tey	Malaysian	-	-	-	-
Y Bhg. Dato' Ab. Halim bin Mohyiddin	Malaysian	-	-	-	-
Mohamed Tajudin bin Mohamed Alias	Malaysian	-	-	-	-
Lee Hui Lcong	Malaysian	20,800	0.01	ⁱⁱ 3,991,273	2.70
Soflyan bin Yahya	Malaysian	180,000	0.12	ⁱⁱ 3,991,273	2.70
Gan Siew Liat	Malaysian	180,000	0.12	ⁱⁱⁱ 46,948,000	31.79
Chew Fook Sin	Malaysian	180,000	0.12	^{iv} 46,948,000	31.79

Notes:

- i* Deemed interest by virtue of his interest in Perkasa Sistem Sdn Bhd pursuant to Section 6A of the Act.
- ii* Deemed interest by virtue of his interest in TKSB pursuant to Section 6A of the Act.
- iii* Deemed interest by virtue of her interest and her spouse, Ir Lee Swee Eng's interest in Perkasa Sistem Sdn Bhd pursuant to Section 6A of the Act.
- iv* Deemed interest by virtue of his sister-in-law, Gan Siew Liat's indirect interest in Perkasa Sistem Sdn Bhd pursuant to Section 6A of the Act.

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

The subsidiaries and associated companies of KNM (including jointly controlled entity) as at 9 September 2005, are as follows:

Name	Date and place of incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
Subsidiaries of KNM				
KNMPS	28.06.1990; Malaysia	RM3,100,000	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries
KNMI	10.05.2002; Malaysia	RM1,000,000	100	Provision of management, technical advisory, licence and trademark services to international related companies and related international investment
Subsidiaries of KNMPS				
KNM OGPET (East Coast) Sdn Bhd	30.05.1994; Malaysia	RM100,000	100	Fabrication and maintenance of oil, gas and petrochemical process equipment, storage tanks, modular assemblies and structural assemblies for oil, gas and petrochemical industries

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Name	Date and place of incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
KNM Plant (Bintulu) Sdn Bhd	16.02.2005; Malaysia	RM2	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
KNM Plant (Gebcng) Sdn Bhd	10.07.1995; Malaysia	RM2	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
KNM Plant (Melaka) Sdn Bhd	10.03.2005; Malaysia	RM2	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
KNM Technical Services Sdn Bhd	24.03.2005; Malaysia	RM2	100	Provision of technical services and other associated services related to the oil, gas and petrochemical industries
Perwira Awan Sdn Bhd	17.10.1992; Malaysia	RM100	100	Property investment
Duraton Engineering Sdn Bhd	14.11.2000; Malaysia	RM2	100	Provision of project manpower, engineering, non-destructive testing and technical consultancy services
Sumber Amantech Sdn Bhd	17.06.2004; Malaysia	RM2	100	Investment holding
MKE Engineering Sdn Bhd ("MKE")	19.07.1991; Malaysia	RM9,000,000	100	Thermal insulation, mechanical piping contracts, fabrication and installation of steel tanks, vessels and structural steel works
Subsidiaries of KNMI				
KNM Overseas (China) Sdn Bhd ("KNMOC")	21.01.2002; Malaysia	RM2	100	Investment holding
KNM Global Ltd	10.06.2004; British Virgin Islands	USD3,000	100	Provision of marketing services
KNM Oil & Gas (B) Sdn Bhd	10.05.2005; Brunei Darussalam	Brunei Dollar 100,000	99	Manufacturer and supplier 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

APPENDIX I

Name	Date and place of incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
PT KNM Indonesia	See*; Indonesia	USD150,000	99	Manufacturer and supplier 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
Jointly controlled entity of KNMI				
FBM-KNM FZCO	01.09.2004; United Arab Emirates	AED63,560,000	50	Design and manufacture of air-cooled heat exchangers, specialty shell and tube heat exchangers and process gas waste heat boilers for the oil, gas, petrochemical and desalination industries
Subsidiary of KNMOC				
KNM Special Process Equipment (Changshu) Co. Ltd	14.06.2002; China	USD31,000,000	100	Design, manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assembling for the oil, gas and petrochemical industries within the market in China
Subsidiaries of MKE				
Pancaran Ribu (M) Sdn Bhd	08.06.1990; Malaysia	RM500,000	100	Contractor of the oil and gas industries and provision of technical services
Hasil Wira Sdn Bhd	28.02.1992; Malaysia	RM100,000	100	Provision of technical drafting and detailed services for structural and mechanical engineering
KMK Power Sdn Bhd	30.07.1994; Malaysia	RM600,010	100	Design, fabrication and installation of power plants and equipment and the provision of technical services
Associated company of KNMPS				
KNM-DP Fabricators Sdn Bhd ("KNM-DP")	22.01.1992; Malaysia	RM528,570	28	Fabrication and maintenance of process equipment, storage tanks, modular assemblies and steel structural components for oil, gas and petrochemical industries
Subsidiary of KNM-DP				
KNM-DP Harta Bina Sdn Bhd	24.09.1994; Malaysia	RM200,000	65 ^	Dormant (intended principal activity is property investment)

Note:-

* Approval of the Investment Coordinating Board (Badan Koordinasi Penanaman Modal) Jakarta, Indonesia was obtained on 9 June 2005 but is still subject to the approval of the Ministry of Justice and Human Rights, Indonesia.

^ KNMPS and KNM-DP directly holds 49% and 51% equity interest in KNM-DP Harta Bina Sdn Bhd respectively.

6. PROFIT AND DIVIDEND RECORD

The following is a summary of the profit and dividend records of the KNM Group based on the proforma consolidated results of the KNM Group for the three (3) financial years ended 31 December 2002, the audited consolidated financial results of the KNM Group for the two (2) financial years ended 31 December 2004 and the unaudited consolidated financial results of the KNM Group for the six (6)-month period ended 30 June 2005:

	< ----- Financial year ended 31 December ----- >					Six (6)-month period ended 30 June 2005 RM'000
	^Proforma 2000 RM'000	^Proforma 2001 RM'000	^Proforma 2002 RM'000	# Audited 2003 RM'000	Audited 2004 RM'000	
Turnover	75,595	73,427	107,352	64,626	172,059	141,374
Profit before taxation and negative goodwill	10,119	7,617	10,612	8,226	12,935	24,489
Negative goodwill	-	-	-	20,829	-	623
Profit before taxation	10,119	7,617	10,612	29,055	12,935	25,112
Taxation	(1,614)	(1,212)	(2,341)	(3,480)	1,531	(6,304)
PAT	8,505	6,405	8,271	25,575	14,466	18,808
Minority interests	-	-	-	-	-	-
Profit after taxation and minority interests	8,505	6,405	8,271	25,575	14,466	18,808
Number of ordinary shares in issue ('000)	28,253	28,253	28,253	122,056 *	142,439 *	147,303 *
Net EPS (RM)	0.30	0.23	0.29	0.21	0.10	0.13
Dividend rate (%)	N/A	N/A	N/A	5.00	6.00	-

Note:-

^ The financial information, the proforma results and the commentaries thereto for the three (3) proforma financial years are extracted from and based on KNM's listing prospectus dated 27 June 2003 on the assumption that the current structure of the KNM Group has been in existence throughout the period under review.

Based on the audited financial results of the KNM Group for the eight (8)-month period ended 31 December 2003. The KNM Group was formed on 2 May 2003 with the completion of the acquisition of KNMPS.

* Weighted average number of ordinary shares in issue.

N/A Not applicable

Commentaries on past performance:

(a) Financial year ended 31 December 2000

The Group continued to enjoy robust growth in revenue in 2000 with the kick-off of 24 new projects which accounted for approximately 61% of total revenue for 2000. These projects also yielded higher margins compared to those of 1999. Projects brought forward from 1999 accounted for the remaining of total revenue in 2000. In line with the revenue growth, the operating profits in 2000 saw a significant improvement principally due to improved margins earned from projects undertaken while the effective tax rates for 2000 were lower than the statutory tax rate due to the utilization of reinvestment allowances available to KNMPS.

(b) Financial year ended 31 December 2001

The Group's revenue in 2001 is marginally lower than 2000 and the Group started work on new projects with a total contract value of RM44.6 million. The average gross profit margin recorded in 2001 was consistent with that of 2000. Meanwhile, the operating profit in 2001 was lower as compared to 2000 principally due to higher staff cost in relation to the Group's expansion plans to the East Coast of Peninsular Malaysia as well as to East Malaysia with the set up of the Gebeng and Bintulu Fabrication Shops respectively. The effective tax rates for 2001 were lower than the statutory tax rate due to the utilization of reinvestment allowances available to KNMPS.

(c) Financial year ended 31 December 2002

2002 recorded a higher revenue due to new projects secured with total contract value of RM160 million. The average gross profit margin recorded in 2002 was consistent with that of 2001 while the operating profit increased in line with the increase in turnover. Similar to the prior financial year, the effective tax rates for 2002 were lower than the statutory tax rate due to the utilization of reinvestment allowances available to KNMPS.

(d) Financial year ended 31 December 2003

To facilitate the financial commentary, the proforma consolidated financial results of the KNM Group for the financial year ended 31 December 2003 on the assumption that the KNM Group has been in existence for the entire financial year ended 31 December 2003 are as follows:-

	RM'000
Revenue	118,155
Consolidated profit before taxation but after minority interest	30,761
Consolidated PAT and minority interest	26,109

A higher proforma revenue of RM118.2 million is recorded for 2003 due to new projects secured with total contract value of RM108 million. The average gross profit margin recorded for 2003 was consistent with that of in 2002. Accordingly, operating profit for 2003 increased in line with the increase in turnover.

The increase in profit before tax is mainly the result of negative goodwill which arose from purchase consideration of RM34.2 million less fair value of net assets of RM55.0 million, where fair value of net assets is greater than the purchase consideration. This transaction arose during the acquisition of KNMPS and KNMI in 2003 by the Company.

The effective tax rate was higher than the statutory tax rate mainly due to certain expenses not allowable and subsidiary's losses not available for set-off for tax purpose.

(e) Financial year ended 31 December 2004

The Group achieved an improved turnover of RM172.1 million compared to the proforma turnover of RM118.2 million achieved in the preceding year which covered twelve (12) months. In line with the healthier turnover, the Group registered an improved profit before tax of RM12.9 million for the year under review compared to proforma profit before tax of RM9.9 million achieved in the twelve (12) months of the preceding year, excluding negative goodwill of RM20.8 million. The turnover was achieved on the back of total contract value of RM512.7 million in hand and increase in manufacturing capacity within the Group.

The effective tax rates for 2004 which was lower than the statutory tax rate was mainly due to overprovision of tax in previous year and utilization of tax incentive.

In addition, during the financial year, the Company has issued RM150.0 million 7-year Murabahah Underwritten Notes Issuance Facility/ Islamic Medium Term Notes ("MUNIF/IMTN"). The proceeds from the MUNIF/IMTN was utilized for the repayment of KNM Group's existing borrowings, capital expenditure as well as working capital.

(f) Six (6)-month financial period ended 30 June 2005

The Group achieved a significant improvement in turnover of RM141.4 million compared to RM75.9 million achieved in the same period of preceding year. In line with increase in turnover, the Group registered an improved profit before tax of RM25.1 million for the period under review compared to profit before tax of RM9.2 million achieved in the corresponding period of preceding year. The turnover was achieved on the back of total contract value of RM489.2 million in hand at the end of the period under review and an increase in manufacturing capacity within the Group. The effective tax rate for the six (6)-month financial period ended 30 June 2005 was lower than the statutory tax rate mainly due to utilization of certain tax incentives.

(g) *There was no exceptional item and extraordinary item for the financial years/period under review.*

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KNM FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2004 TOGETHER WITH THE AUDITORS' REPORT THEREON**

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

**Financial statements for the year
ended 31 December 2004**

Domiciled in Malaysia
Principal place of business
15 Jalan Dagang SB4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

KNM Group Berhad

(Company No. 521348-H)

(Incorporated in Malaysia)

and its subsidiaries

Directors' report for the year ended 31 December 2004

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2004.

Principal activities

The Company is principally engaged in investment holding and provision of management services, whilst the principal activities of the subsidiaries are as stated in Note 28 to the financial statements.

Results

	Group RM'000	Company RM'000
Net profit for the year	14,466	8,286
	<u> </u>	<u> </u>

Reserves and provisions

There were no material transfers to or from reserves and provisions during the year except as disclosed in the financial statements.

Dividend

Since the end of the previous financial year, the Company paid a final dividend of 5% per share tax exempt totalling RM2,200,000.00 in respect of the year ended 31 December 2003 on 9 August 2004.

The final dividend recommended by the Directors in respect of the year ended 31 December 2004 is 6% per share less tax totalling RM3,151,699.

Company No. 521348-H

Directors of the Company

Directors who served since the date of the last report are:

Dato' Abdul Rani bin Mohd. Razalli
 Lee Swee Eng
 Lee Hui Leong
 Sofiyan bin Yahya
 Gan Siew Liat
 Chew Fook Sin
 Dato' Ab. Halim bin Mohyiddin
 Lim Yu Tey
 Mohamed Tajudin bin Mohamed Alias

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares					At 31.12.2004
	At 1.1.2004	Share Split	Bonus issue	Bought	Sold	
<i>Shareholdings in which Directors have direct interests in the Company</i>						
Dato' Abdul Rani bin Mohd. Razalli	-	-	-	100,000	(100,000)	-
Lee Swee Eng	-	-	-	300,000	-	300,000
<i>Shareholdings in which Directors have indirect interests in the Company</i>						
Dato' Abdul Rani bin Mohd. Razalli	26,916,000	20,916,000	20,916,000	-	(9,800,000)	58,948,000
Lee Swee Eng	26,916,000	20,916,000	20,916,000	-	(9,800,000)	58,948,000
Lee Hui Leong	3,247,091	2,597,091	2,597,091	-	(4,450,000)	3,991,273
Sofiyan bin Yahya	26,916,000	2,597,091	2,597,091	-	(28,118,909)	3,991,273
Gan Siew Liat	26,916,000	20,916,000	20,916,000	-	(9,800,000)	58,948,000
Chew Fook Sin	26,916,000	20,916,000	20,916,000	-	(9,800,000)	58,948,000

Company No. 521348-H

**Number of options over ordinary shares
of RM0.50 each**

The Company	At 1.1.2004	Granted	Exercised	At 31.12.2004
Dato' Abdul Rani bin Mohd. Razalli	-	1,500,000	(300,000)#	1,200,000
Lee Swee Eng	-	1,500,000	(300,000)	1,200,000
Lee Hui Leong	-	900,000	(180,000)*	720,000
Sofiyan bin Yahya	-	900,000	(180,000)*	720,000
Gan Siew Liat	-	900,000	(180,000)*	720,000
Chew Fook Sin	-	900,000	(180,000)*	720,000

Certain options exercised are pending allotment of shares at year end.

* Options exercised are pending allotment of shares at year end.

By virtue of their interests in the Company, Dato' Abdul Rani bin Mohd. Razalli, Sofiyan bin Yahya, Lee Swee Eng, Gan Siew Liat and Chew Fook Sin are also deemed to have interests in the subsidiaries during the financial year to the extent that the Company has an interest.

None of the other Directors holding office at 31 December 2004 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salaries of full time employees of the Company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a corporation in which the Director has a substantial financial interest, other than as disclosed in Note 23 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the options granted pursuant to the Employees' Share Option Scheme ("ESOS") of the Company.

Company No. 521348-H

Issue of shares and debentures

During the financial year, the authorised share capital of the Company was increased from RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each to RM200,000,000 comprising 400,000,000 ordinary shares of RM0.50 each by the creation of an additional 300,000,000 ordinary shares of RM0.50 each.

During the financial year, the Company has undertaken the following shares issuance:

- (i) Private placement of 4,400,000 ordinary shares of RM1.00 each at an issue price of RM3.50 each on 24 August 2004.
- (ii) Subdivision of the issued and paid up share capital of 48,400,000 ordinary shares of RM1.00 each into 96,800,000 new ordinary shares of RM0.50 each on the basis of two (2) new ordinary shares of RM0.50 each for every one (1) ordinary share of RM1.00 each.
- (iii) Bonus issue of 48,400,000 new ordinary shares of RM0.50 each from the share premium and retained profits of the Company, on the basis of one (1) new ordinary share for every two (2) existing ordinary shares held.
- (iv) Issue of 712,000 new ordinary shares of RM0.50 each at an option price of RM1.63 each for cash pursuant to the exercise of ESOS of the Company.

All the ordinary shares issued rank pari passu with the existing shares of the Company.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the year, apart from the issue of option pursuant to the ESOS of the Company.

Employees' share option scheme ("ESOS")

At an Extraordinary General Meeting held on 22 July 2004, the Company's shareholders approved the establishment of an ESOS of not more than 5% of the issued share capital of the Company.

The options offered to take up unissued ordinary shares of RM0.50 each and the option prices are as follow:-

Number of options over ordinary shares of RM0.50 each

Date of Offer	Option price RM	Balance at	Granted '000	Exercised '000	Balance
		1.1.2004 '000			31.12.2004 '000
25.8.2004	1.63	-	15,127	(1,916)#	13,211

Certain options exercised are pending allotment of shares at year end.

The Audit Committee has verified the allocation of options granted during the financial year.

Company No. 521348-H

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of employees who have been granted options to subscribe for less than 300,000 ordinary shares of RM0.50 each. The list of employees granted options to subscribe for 300,000 or more ordinary shares of RM0.50 each during the financial year is as follows:

	Granted date	Expiry date	Exercise price (RM)	Number of options over ordinary shares of RM0.50 each		At 31.12.2004
				Granted	Exercised	
Dato' Abdul Rani bin Mohd. Razalli	25.8.2004	24.8.2009	1.63	1,500,000	(300,000)#	1,200,000
Lee Swee Eng	25.8.2004	24.8.2009	1.63	1,500,000	(300,000)	1,200,000
Lee Hui Leong	25.8.2004	24.8.2009	1.63	900,000	(180,000)*	720,000
Sofiyani bin Yahya	25.8.2004	24.8.2009	1.63	900,000	(180,000)*	720,000
Gan Siew Liat	25.8.2004	24.8.2009	1.63	900,000	(180,000)*	720,000
Chew Fook Sin	25.8.2004	24.8.2009	1.63	900,000	(180,000)*	720,000

Certain options exercised are pending allotment of shares at year end.

* Options exercised are pending allotment of shares at year end.

The salient features of the scheme are as follows:-

- i) Subject to the discretion of the ESOS Committee, any employee of at least eighteen (18) years of age on the date of offer, shall be eligible to participate.
- ii) The option is personal to the grantee and is non-assignable, non-transferable and non-disposable.
- iii) The option price shall be determined by the weighted average of the market price of the shares as shown in the daily official list issued by the Bursa Securities for the five (5) market days immediately preceding the dates of offer subject to a discount of not more than ten percent (10%) thereto to be decided by the ESOS committee or at the par value of the share, whichever is higher.
- iv) The options shall not carry any right to vote at any general meeting of Company and the grantee shall not be entitled to any dividends, rights, allotments and or other distributions on his unexercised options.
- v) The options granted may be exercised in respect of such lesser number of new shares as the grantee may decide provided that the number shall be in multiples of and not less than one hundred (100) new shares.
- vi) The new shares to be allotted and issued upon any exercise of the options will upon such allotment and issuance, rank pari passu in all respect with the then existing issued and fully paid-up shares.

The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company.

Company No. 521348-H

Significant events during the year

The significant events during the year are as disclosed in Note 25 to the financial statements.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- (i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- (i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- (ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

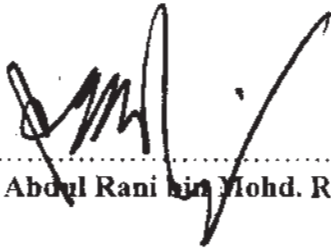
Company No. 521348-H

In the opinion of the Directors, other than the acquisition of the jointly control entity, the change in its accounting policy on goodwill and provision for foreseeable losses as disclosed in the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2004 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:



.....
Dato' Abdul Rani bin Mohd. Razalli



.....
Lee Swee Eng

Kuala Lumpur,

Date: 20 April 2005

KNM Group Berhad

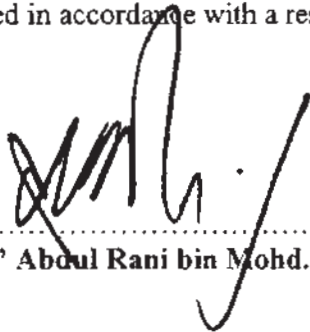
(Company No. 521348-H)

(Incorporated in Malaysia)

and its subsidiaries**Statement by Directors pursuant to
Section 169(15) of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 12 to 53 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2004 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:



.....
Dato' Abdul Rani bin Mohd. Razalli



.....
Lee Swee Eng

Kuala Lumpur,

Date: 20 April 2005

KNM Group Berhad

(Company No. 521348-H)

(Incorporated in Malaysia)

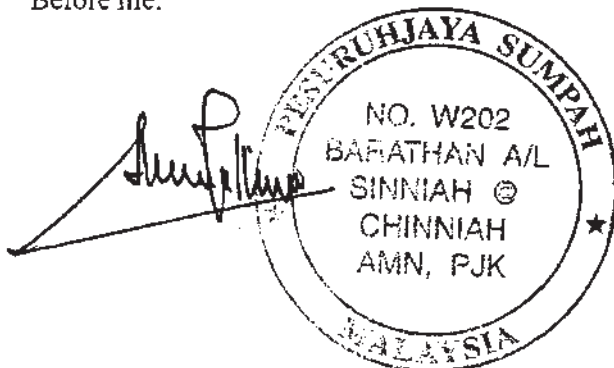
and its subsidiaries**Statutory declaration pursuant to
Section 169(16) of the Companies Act, 1965**

I, **Tung Kai Shek**, the officer, primarily responsible for the financial management of KNM Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 12 to 53 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in **Kuala Lumpur** on
20 April 2005.


Tung Kai Shek

Before me:



Tingkat 10 Wisma UOA Damansara
50, Jalan Dungen,
Bukit Damansara,
50450 Kuala Lumpur



KPMG (Firm No. AF 0758)
Chartered Accountants
Wisma KPMG
Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia

Telephone +60 (3) 2095 3388
Fax +60 (3) 2095 0971
Internet www.kpmg.com.my

Report of the auditors to the members of KNM Group Berhad

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

We have audited the financial statements set out on pages 12 to 53. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2004 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.





Company No. 521348-H

The subsidiary in respect of which we have not acted as auditors is identified in Note 28 to the financial statements and we have considered its financial statements and the auditors' report thereon.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.


KPMG
Firm Number: AF 0758
Chartered Accountants


Chan Kam Chiew
Partner
Approval Number: 2055/06/06(J)

Kuala Lumpur,

Date: 20 April 2005

KNM Group Berhad

(Company No. 521348-H)

(Incorporated in Malaysia)

and its subsidiaries**Balance sheets at 31 December 2004**

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Property, plant and equipment	2	95,343	82,831	-	-
Investments in subsidiaries	3	-	-	34,686	34,686
Investment in jointly controlled entity	5	49,687	-	-	-
Amount due from subsidiaries	6	-	-	158,362	18,588
		<u>145,030</u>	<u>82,831</u>	<u>193,048</u>	<u>53,274</u>
Current assets					
Inventories	7	6,870	6,490	-	-
Trade and other receivables	8	126,943	79,397	351	3,001
Tax recoverable		28	-	-	-
Cash and cash equivalents	9	26,268	4,942	9,704	43
		<u>160,109</u>	<u>90,829</u>	<u>10,055</u>	<u>3,044</u>
Current liabilities					
Trade and other payables	10	27,610	8,090	2,215	132
Borrowings (secured)	11	20,646	63,514	-	-
Taxation		2,172	4,184	210	15
		<u>50,428</u>	<u>75,788</u>	<u>2,425</u>	<u>147</u>
Net current assets		<u>109,681</u>	<u>15,041</u>	<u>7,630</u>	<u>2,897</u>
		<u>254,711</u>	<u>97,872</u>	<u>200,678</u>	<u>56,171</u>
Financed by:					
Capital and reserves					
Share capital	12	72,956	44,000	72,956	44,000
Reserves		41,421	34,955	5,722	12,171
		<u>114,377</u>	<u>78,955</u>	<u>78,678</u>	<u>56,171</u>
Long term and deferred liabilities					
Borrowings (secured)	11	133,351	13,500	122,000	-
Deferred taxation	14	6,983	5,417	-	-
		<u>140,334</u>	<u>18,917</u>	<u>122,000</u>	<u>-</u>
		<u>254,711</u>	<u>97,872</u>	<u>200,678</u>	<u>56,171</u>

The financial statements were approved and authorised for issue by the Board of Directors on 20 April 2005.

The notes set out on pages 18 to 53 form an integral part of, and should be read in conjunction with, these financial statements.

KNM Group Berhad

(Company No. 521348-H)

(Incorporated in Malaysia)

and its subsidiaries**Income statements for the year ended
31 December 2004**

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Revenue					
Contract revenue		172,059	64,626	-	-
Management fees		-	-	3,131	-
Dividend income		-	-	11,614	3,000
		<u>172,059</u>	<u>64,626</u>	<u>14,745</u>	<u>3,000</u>
Contract costs recognised as an expense		(134,359)	(44,242)	-	-
		<u>37,700</u>	<u>20,384</u>	<u>14,745</u>	<u>3,000</u>
Gross profit					
Administration expenses		(22,211)	(9,880)	(3,825)	(455)
Other operating expenses		(2,926)	(2,871)	-	-
Other operating income		2,072	1,887	-	204
		<u>14,635</u>	<u>9,520</u>	<u>10,920</u>	<u>2,749</u>
Operating profit	15				
Financing costs	17	(3,788)	(1,440)	(1,876)	-
Interest income		241	146	1,641	57
Negative goodwill		-	20,829	-	-
Share of profit of jointly controlled entity	5	1,847	-	-	-
		<u>12,935</u>	<u>29,055</u>	<u>10,685</u>	<u>2,806</u>
Profit before taxation					
Tax expense	18	1,531	(3,480)	(2,399)	(15)
		<u>14,466</u>	<u>25,575</u>	<u>8,286</u>	<u>2,791</u>
Net profit for the year					
Basic earnings per ordinary share (sen)	19	<u>10.16</u>	<u>20.95</u>		
Diluted earnings per ordinary share (sen)	19	<u>10.06</u>	<u>20.95</u>		
Dividend per ordinary share(sen) - net (2003 - tax exempt)	20	<u>2.16</u>	<u>5.00</u>	<u>2.16</u>	<u>5.00</u>

The notes set out on pages 18 to 53 form an integral part of, and should be read in conjunction with, these financial statements.

KNM Group Berhad

(Company No. 521348-H)

(Incorporated in Malaysia)

and its subsidiaries**Statements of changes in equity for the year ended
31 December 2004**

Group	Note	<i>Non</i>				Total RM'000
		← <i>distributable</i> →	<i>Distributable</i>	← <i>distributable</i> →	<i>Distributable</i>	
		Share capital RM'000	Share premium RM'000	Revaluation reserve RM'000	Retained profits RM'000	
At 1 January 2003		- *	-	-	(8)	(8)
Issuance of shares	12	44,000	11,252	-	-	55,252
Expenses not recognised in income statement						
- Listing expenses		-	(1,864)	-	-	(1,864)
Net profit for the year		-	-	-	25,575	25,575
At 31 December 2003		44,000	9,388	-	25,567	78,955
Issuance of shares						
- Private placement	12	4,400	11,000	-	-	15,400
- Bonus issue	12	24,200	(20,249)	-	(3,951)	-
- ESOS	12	356	804	-	-	1,160
Expenses not recognised in income statement						
- Share issue expenses		-	(139)	-	-	(139)
Surplus on revaluation of property, plant and equipment		-	-	6,735	-	6,735
Net profit for the year		-	-	-	14,466	14,466
Dividend - 2003 final	20	-	-	-	(2,200)	(2,200)
At 31 December 2004		<u>72,956</u>	<u>804</u>	<u>6,735</u>	<u>33,882</u>	<u>114,377</u>

Note 12

* Issued and fully paid-up share capital of RM2

Company No. 521348-H

Statements of changes in equity for the year ended 31 December 2004

(continued)

Company	Note	Share capital RM'000	Non distributable		Total RM'000
			Share premium RM'000	Distributable (Accumulated loss)/ Retained profit RM'000	
At 1 January 2003		- *	-	(8)	(8)
Issuance of shares		44,000	11,252	-	55,252
Expenses not recognised in income statement					
- Listing expenses		-	(1,864)	-	(1,864)
Net profit for the year		-	-	2,791	2,791
At 31 December 2003		44,000	9,388	2,783	56,171
Issuance of shares					
- Private placement	12	4,400	11,000	-	15,400
- Bonus issue	12	24,200	(20,249)	(3,951)	-
- ESOS	12	356	804	-	1,160
Expenses not recognised in income statement					
- Share issue expenses		-	(139)	-	(139)
Net profit for the year				8,286	8,286
Dividend - 2003 final	20	-	-	(2,200)	(2,200)
At 31 December 2004		72,956	804	4,918	78,678
		Note 12		Note 13	

* Issued and fully paid-up share capital of RM2

The notes set out on pages 18 to 53 form an integral part of, and should be read in conjunction with, these financial statements.

KNM Group Berhad

(Company No. 521348-H)

(Incorporated in Malaysia)

and its subsidiaries**Cash flow statements for the year ended 31 December 2004**

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Cash flows from operating activities					
Profit before tax		12,935	29,055	10,685	2,806
Adjustments for:					
Share of profit in jointly controlled entity		(1,847)	-	-	-
Negative goodwill		-	(20,829)	-	-
Depreciation		2,161	1,355	-	-
Dividend income		-	-	(11,614)	(3,000)
Interest expense		3,566	1,428	1,874	-
Interest income		(241)	(146)	(1,641)	(57)
Revaluation deficit on property, plant and equipment		344	-	-	-
Unrealised foreign exchange gain		-	119	-	-
Property, plant and equipment written off		48	-	-	-
Operating profit/(loss) before working capital changes		16,966	10,982	(696)	(251)
(Increase)/Decrease in working capital:					
Inventories		(380)	(1,490)	-	-
Trade and other receivables		(40,946)	(2,554)	2,825	(3,001)
Trade and other payables		19,520	(8,104)	2,083	124
Cash (used in)/generated from operations		(4,840)	(1,166)	4,212	(3,128)
Income taxes paid		(1,516)	(2,358)	(72)	-
Interest paid		(2,616)	(2,292)	-	-
Interest received		241	146	1,641	57
Net cash (used in)/generated from operating activities		(8,731)	(5,670)	5,781	(3,071)
Cash flows from investing activities					
Investment in a jointly controlled entity		(47,840)	-	-	-
Acquisition of subsidiaries, net of cash acquired	29	-	1,422	-	(500)
Decrease / (Increase) in pledged deposit placed with licensed bank		50	(50)	-	-
Dividend received		-	-	9,482	3,000
Advances to subsidiary companies		-	-	(139,949)	(18,588)
Purchase of property, plant and equipment (i)		(10,374)	(8,492)	-	-
Net cash used in investing activities		(58,164)	(7,120)	(130,467)	(16,088)

Company No. 521348-H

Cash flow statements for the year ended 31 December 2004 (continued)

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Cash flows from financing activities					
Repayment of bills payable		(32,750)	(8,992)	-	-
Repayment of hire purchase liabilities		(4,269)	(1,624)	-	-
Proceeds from term loan/MUNIF		128,768	10,329	122,000	-
Repayment of term loan		-	(16,299)	-	-
Interest expenses		(2,933)	(799)	(1,874)	-
Proceeds from issuance of shares		16,421	19,202	16,421	19,202
Dividend paid to shareholders of the Company		(2,200)	-	(2,200)	-
Net cash generated from financing activities		103,037	1,817	134,347	19,202
Net increase/(decrease) in cash and cash equivalents		36,142	(10,973)	9,661	43
Cash and cash equivalents at beginning of year	(ii)	(10,973)	-	43	-
Cash and cash equivalents at end of year	(ii)	25,169	(10,973)	9,704	43

i) Purchase of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM10,374,000 (2003 - RM9,599,000) of which Nil (2003 - RM1,107,000) was acquired by means of hire purchases.

ii) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Cash and bank balances	19,575	2,080	9,704	43
Deposits with licensed banks (excluding deposits pledged)	6,693	2,812	-	-
Bank overdrafts	(1,099)	(15,865)	-	-
	25,169	(10,973)	9,704	43

The notes set out on pages 18 to 53 form an integral part of, and should be read in conjunction with, these financial statements.

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Notes to the financial statements

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and by the Company and are consistent with those adopted in previous years except for the change of the Group's accounting policy on goodwill as disclosed in Note 1(f) to the financial statements.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(c) Subsidiaries

Investment in subsidiaries is stated at cost in the Company, less impairment loss where applicable.

(d) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Investment in associated companies is stated at cost in the Company, less impairment loss where applicable.

(e) Jointly controlled entity

A jointly controlled entity is an entity in which the Group has joint control over its economic activity established under a contractual arrangement.

Investment in jointly controlled entity is accounted for in the consolidated financial statements by the equity method of accounting based on the management financial statements of the jointly controlled entity. Under the equity method of accounting, the Group's share of profits or losses of jointly controlled entity during the financial year is included in the consolidated income statement. The Group's interest in jointly controlled entity is carried in the consolidated balance sheet at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are eliminated unless cost cannot be recovered.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(f) Goodwill or negative goodwill

Goodwill or negative goodwill represents the excess or deficit of the cost of acquisition over the fair values of the net identifiable assets acquired.

During the financial year, the Group changed its accounting policy on goodwill whereby goodwill is stated at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. After initial recognition, the Group shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses. The Group shall test goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

In respect of associates and jointly control entity, the carrying amount of goodwill is included in the carrying amount of the investment in associate or jointly controlled entity.

Prior to this, goodwill, which represents the excess of purchase price over the fair value of net assets acquired, was recognised immediately to the income statement.

This change in accounting policy is to be in line with the proposed adoption of MASB ED40, Business Combination.

The effect of this change in goodwill policy has no effect on the prior years financial statement but increases the Group profit before taxation for the year ended 31 December 2004 by RM24,232,000 arising from the completion of the acquisition of FBM-KNM FZCO during the year ended 31 December 2004.

Negative goodwill arising on an acquisition is recognised directly in the income statements.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(g) Property, plant and equipment

Capital work-in-progress is stated at cost. All other property, plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses where applicable.

The Group's revalues its property comprising land, land use rights and buildings every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Land, land use rights and buildings is stated at Directors' valuation based on professional valuations made by W.M. Malik & Kamaruzaman and Tian Yuan Fixed Asset Consultation and Valuation Ltd. Co., on the open market basis conducted in December 2004. The next valuation is expected to be in 2009.

Other property, plant and equipment and additions to the land, land use rights and buildings subsequent to their revaluation are stated in the financial statements at cost.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statements.

Depreciation

Capital work-in-progress is not amortised. Leasehold land and land use rights are amortised in equal instalments over the period of the respective leases which range from fifty to ninety nine years while buildings are depreciated on a straight-line basis over the shorter of 50 years or the lease period. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Plant and machinery	10% - 25%
Motor vehicles	20%
Furniture, fittings and equipment	10%

(h) Hire purchase

Property, plant and equipment acquired under hire purchase agreements are capitalised at their purchase cost and depreciated on the same basis as owned assets. The corresponding obligations relating to the remaining capital payments are treated as a liability. Finance charges are charged to the income statement over the hire purchase periods on the sum of digits method.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(i) Inventories

Inventories comprise raw materials, tools and consumables which are stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and includes the cost of direct materials and incidental costs in bringing these inventories to their present location and condition.

(j) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

(k) Amount due from contract customers

Amount due from contract customers on construction contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes the cost of materials, subcontract fees, direct expenses and a proportion of direct overheads. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

(l) Capitalisation of borrowing costs

Borrowing costs incurred on gross amount due from contract customers are capitalised. The amount of borrowing costs eligible for capitalisation is the actual borrowing cost incurred on borrowings made specifically for the purpose of financing gross amount due from contract customers.

Capitalisation of borrowing costs will cease when the assets are ready for their intended use.

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(n) Impairment

The carrying amount of the Group's assets, other than inventories (refer Note I(i)), assets arising from construction contracts, deferred tax assets and financial assets (other than investments in subsidiaries, associates and jointly controlled entity), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

(o) Employee benefits

(i) *Short term employee benefits*

Wages, salaries, bonuses and social security contribution are recognised as expenses in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(o) Employee benefits (continued)

(ii) *Defined contribution plans*

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

(iii) *Equity and equity-related compensation benefits*

The share option programme allows Group employees to acquire shares of the Company. When the options are exercised, equity is increased by the amounts of the proceed received.

(p) Liabilities

Borrowings and trade and other payables are stated at cost.

(q) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(r) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(ii) Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

	2004	2003
1USD	RM3.82	RM3.80
1SGD	RM2.34	RM2.23
1EURO	RM5.17	RM4.77
1RMB	RM0.46	RM0.46
1CAD	RM3.18	RM2.93

(s) Derivative financial instruments

The Group uses derivative financial instruments, including forward foreign exchange contracts, to hedge its exposure to foreign exchange risk arising from operational activities.

Derivative financial instruments (used for hedging purposes) are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Company No. 521348-H

1. Summary of significant accounting policies (continued)

(t) Revenue

i) Construction contracts

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to completion of a physical proportion of the contract work.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

An expected loss on a contract is recognised immediately in the income statement.

ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

iii) Management fee

Management fee is recognised on an accrual basis.

(u) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

(v) Financing costs

All interest and other costs incurred in connection with borrowings, other than that capitalised in accordance with Note 1(I), are expensed as incurred. The interest component of hire purchase payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

Company No. 521348-H

2. Property, plant and equipment

Group	Long term leasehold land RM'000	Short term land use rights RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture, fittings and equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/Valuation								
At 1 January 2004	8,651	2,255	46,259	42,382	2,268	6,575	-	108,390
Additions	-	-	1,382	5,984	200	1,675	1,133	10,374
Written off	-	-	-	-	-	(145)	-	(145)
Revaluation	199	824	3,753	-	-	-	-	4,776
At 31 December 2004	8,850	3,079	51,394	48,366	2,468	8,105	1,133	123,395
Representing items at:								
Cost	-	-	-	48,366	2,468	8,105	1,133	60,072
Directors' valuation - 2004	8,850	3,079	51,394	-	-	-	-	63,323
Accumulated depreciation								
At 1 January 2004	429	44	2,214	19,364	1,162	2,346	-	25,559
Charge for the year	120	48	1,333	4,126	366	785	-	6,778
Written off	-	-	-	-	-	(97)	-	(97)
Adjustment for revaluation	(549)	(92)	(3,547)	-	-	-	-	(4,188)
At 31 December 2004	-	-	-	23,490	1,528	3,034	-	28,052

Company No. 521348-11

2. Property, plant and equipment (continued)

Group	Long term leasehold land RM'000	Short term land use rights RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture, fittings and equipment RM'000	Capital work in progress RM'000	Total RM'000
<i>Net book value</i>								
At 31 December 2004	8,850	3,079	51,394	24,876	940	5,071	1,133	95,343
At 31 December 2003	8,222	2,211	44,045	23,018	1,106	4,229	-	82,831
Depreciation charged for the year ended 31 December 2003	80	30	503	2,606	206	420	-	3,845

Company No. 521348-H

2. Property, plant and equipment (continued)

2.1 Depreciation charge for the year is allocated as follows:

	Group	
	2004 RM'000	2003 RM'000
Income statement (Note 15)	2,161	1,355
Amount due from contract customers (Note 8.2)	4,617	2,490
	6,778	3,845
	6,778	3,845

2.2 Revaluation

Land, land use rights and buildings are stated at Directors' valuation based on professional valuations on the open market basis conducted in December 2004 by Kamaruzaman Jamil, a chartered surveyor in W.M. Malik & Kamaruzaman and Wong Fong and Xu Xiao Fan, certified valuers in Tian Yuan Fixed Assets Consultation and Valuation Ltd. Co.

Had the land, land use rights and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the revalued land, land use rights and buildings that would have been included in the financial statements at the end of the year would be as follows:

	Group 2004 RM'000
Long term leasehold land	8,103
Short term land use rights	2,163
Buildings	44,094
	54,360
	54,360

2.3 Security

Certain leasehold land, land use rights and buildings of the Group valued at RM54,788,000 (2003 – costing RM32,287,000) and machinery costing RM5,073,000 (2003 – Nil) in a subsidiary are charged to certain licensed banks to secure credit facilities granted to the subsidiaries (Note 11).

Company No. 521348-H

2. Property, plant and equipment (continued)

2.4 Assets under hire purchase

The net book values of property, plant and equipment acquired under hire purchase agreements are as follows:

	Group	
	2004 RM'000	2003 RM'000
Plant and machinery	72	5,518
Motor vehicles	286	547
	358	6,065
	358	6,065

2.5 Title

The land title of a long term leasehold land valued at RM1,450,000 (2003 - costing RM1,258,000) is pending issuance by the authorities.

3. Investments in subsidiaries

	Company	
	2004 RM'000	2003 RM'000
Unquoted shares - at cost	34,686	34,686
	34,686	34,686
	34,686	34,686

Details of the subsidiaries are shown in Note 28 to the financial statements.

4. Investments in associates

	Group	
	2004 RM'000	2003 RM'000
Unquoted shares - at cost	-	-
	-	-
	-	-

Company No. 521348-H

4. Investments in associates (continued)

The associates, all of which are incorporated in Malaysia, are as follows:

Name of Company	Principal Activities	Effective Ownership Interest	
		2004	2003
KNM-DP Fabricators Sdn. Bhd.	Fabrication and maintenance of process equipment, storage tanks, modular assemblies and steel structural components for oil, gas and petrochemical industries	28%	28%

Subsidiary of KNM-DP Fabricators Sdn. Bhd

KNM-DP Harta Bina Sdn. Bhd.	Dormant	65%	65%
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The Group's share of the cumulative losses of KNM-DP Fabricators Sdn. Bhd. and its subsidiary, KNM-DP Harta Bina Sdn. Bhd. amounting to RM633,000 (2003 - RM42,000) has not been recognised in the Group's income statement using equity accounting because the Group's share of losses of these associates exceeded the carrying amount of its investments in the associates.

5. Investment in jointly controlled entity

	Group 2004 RM'000
Unquoted shares, at cost	47,840
Share of post acquisition reserve	1,847
	<hr/>
	49,687
	<hr/>

The Group's aggregate share of the asset and liabilities of jointly controlled entity is as follows:

	Group 2004 RM'000
Non-current assets	23,046
Current assets	14,858
Current liabilities	(12,449)
	<hr/>
Share of net assets of jointly controlled entity	25,455
Goodwill arising from investment	24,232
	<hr/>
	49,687
	<hr/>

Company No. 521348-H

5. Investment in jointly controlled entity (continued)

The Group's aggregate share of the revenue and expenses of jointly controlled entity is as follows:

	Group 2004 RM'000
Revenue	5,426
Expenses	(3,579)
	<hr style="width: 100%; border: 0.5px solid black;"/>
	1,847
	<hr style="width: 100%; border: 0.5px solid black;"/>

Details of the jointly controlled entity are as follow:

Name of company	Principal activity	Country of incorporation	Effective ownership interest	
			2004	2003
FBM -KNM FZCO	Design, manufacture, assembly and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks specialised structural assemblies for oil, gas and petrochemical industries within the Middle East market.	United Arab Emirates	50%	-

6. Amount due from subsidiaries

The amount due from subsidiaries relates to advances, is unsecured, interest free and is not repayable within the next twelve months except for RM80,000,000 (2003 - Nil) which is subject to interest of 3.50% (2003 - Nil) per annum.

Company No. 521348-H

7. Inventories

	Group	
	2004 RM'000	2003 RM'000
Raw materials	3,612	3,743
Tools and consumables	3,258	2,747
	<u>6,870</u>	<u>6,490</u>

8. Trade and other receivables

	Note	Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Trade receivables	8.1	26,606	20,818	-	-
Amount due from contract customers	8.2	87,636	56,683	-	-
Subsidiary	8.3	-	-	-	3,000
Other receivables, deposits and prepayments	8.4	12,701	1,896	351	1
		<u>126,943</u>	<u>79,397</u>	<u>351</u>	<u>3,001</u>

8.1 Trade receivables

Included in trade receivables are contract advances to a related party of RM105,000 (2003 – related company of RM2,962,000).

8.2 Amount due from contract customers

	Group	
	2004 RM'000	2003 RM'000
Aggregate costs incurred to date	360,351	255,041
Add: Attributable profits	104,367	87,671
	<u>464,718</u>	<u>342,712</u>
Less: Progress billings	(377,871)	(286,029)
	<u>86,847</u>	<u>56,683</u>
Amount due from contract customers	86,847	56,683
Amount due to contract customers (Note 10)	789	-
	<u>87,636</u>	<u>56,683</u>

Company No. 521348-H

8. Trade and other receivables (continued)

Additions to aggregate costs incurred during the year include:

	Group	
	2004 RM'000	2003 RM'000
Depreciation (Note 2)	4,617	2,490
Hire of plant and machinery	138	374
Interest expenses - bills payable	1,983	1,663
Rental of premises	414	278
Rental of machinery	40	24
Staff costs	1,558	347
	<u> </u>	<u> </u>

Interest was capitalised at an average rate of 7% (2003 - 7%) per annum.

8.3 Subsidiary

The amount due from subsidiary was non-trade related, unsecured, interest free and has no fixed terms of repayment.

8.4 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group is:

- i) Rental deposit for building of RM165,000 (2003 - RM165,000) paid to a company in which certain directors have financial interest.
- ii) Share application monies placed with the jointly controlled entity of RM9,416,000 (or EURO2,000,000) (2003 - Nil).

9. Cash and cash equivalents

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Cash and bank balances	19,575	2,080	9,704	43
Deposits with licensed banks	6,693	2,862	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>26,268</u>	<u>4,942</u>	<u>9,704</u>	<u>43</u>

Deposits of the Group amounting to Nil (2003 - RM50,000) are placed with licensed banks as security for credit facilities granted to a subsidiary.

Company No. 521348-H

10. Trade and other payables

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Trade payables	18,195	5,750	-	-
Amount due to contract customers (Note 8.2)	789	-	-	-
Associates - trade	120	-	-	-
Related parties – non trade	1,490	-	-	-
Other payables and accrued expenses	5,053	2,340	252	132
Share application monies	1,963	-	1,963	-
	<u>27,610</u>	<u>8,090</u>	<u>2,215</u>	<u>132</u>

10.1. Related parties

The non trade amounts due to related parties are unsecured, interest free and with no fixed term of repayment.

11. Borrowings (secured)

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Current:				
Bank overdrafts	1,099	15,865	-	-
Bills payable	7,423	40,173	-	-
Hire purchase liabilities	112	2,013	-	-
Term loan	12,012	5,463	-	-
	<u>20,646</u>	<u>63,514</u>	<u>-</u>	<u>-</u>
Non-current:				
Hire purchase liabilities	80	2,448	-	-
Term loan	11,271	11,052	-	-
MUNIF	122,000	-	122,000	-
	<u>133,351</u>	<u>13,500</u>	<u>122,000</u>	<u>-</u>
	<u>153,997</u>	<u>77,014</u>	<u>122,000</u>	<u>-</u>

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11. Borrowings (secured) (continued)

11.1 Terms and debt repayment schedule

<i>Group</i> 2004	Total RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
Bank overdrafts	1,099	1,099	-	-
Bills payable	7,423	7,423	-	-
Hire purchase liabilities	192	112	55	25
Term loan	23,283	12,012	2,894	8,377
MUNIF	122,000	-	-	122,000
	<u>153,997</u>	<u>20,646</u>	<u>2,949</u>	<u>130,402</u>
2003				
Bank overdrafts	15,865	15,865	-	-
Bills payable	40,173	40,173	-	-
Hire purchase liabilities	4,461	2,013	1,350	1,098
Term loan	16,515	5,463	1,217	9,835
	<u>77,014</u>	<u>63,514</u>	<u>2,567</u>	<u>10,933</u>
<i>Company</i> 2004				
MUNIF	<u>122,000</u>	<u>-</u>	<u>-</u>	<u>122,000</u>

11.2 The bank overdrafts and bills payable of the Group are secured by way of legal charges over certain long term leasehold land and buildings of the Group.

The bank overdrafts and bills payable are subject to interest ranging from 1.25% to 1.50% (2003 - 1.25% to 1.50%) per annum above the lenders' base lending rate or discount rate.

In connection with the bank overdrafts and bills payable facilities granted by licensed banks, the subsidiary has agreed on the following significant covenants, among others:

- i) the shareholders' funds of the subsidiary shall not be less than RM40,000,000 throughout the duration of the lending;
- ii) not to declare and pay any dividend without the prior consent from the lenders and consent shall not be unreasonably withheld by the lenders;

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11. Borrowings (secured) (continued)

- iii) not to create any new charges or provide additional securities in favour of other lenders without consent which would not be unreasonably withheld by the lenders;
- iv) the ratio of total debt to tangible net worth shall not exceed 2 : 1 at any time;
- v) the ratio of cash flow to annual interest requirements shall not fall at any time below 2 : 1; and
- vi) not to change the subsidiary's financial year, nature of business, control ownership, shareholders, directors and corporate structure or enter into any partnership, profit sharing or royalty agreement whereby the subsidiary's income or profit is, or might be, shared with any other parties or enter into any management contract whereby the subsidiary's business and operations are managed by other parties.

11.3 Hire purchase liabilities

Hire purchase liabilities are subject to interest at rates ranging from 3.20% to 5.90% (2003 - 3.80% to 4.55%) per annum.

Hire purchase liabilities are payable as follows:

Group	← 2004 →			← 2003 →		
	Payments RM'000	Interest RM'000	Principal RM'000	Payments RM'000	Interest RM'000	Principal RM'000
Less than one year	120	8	112	2,304	291	2,013
Between one and five years	83	3	80	2,663	215	2,448
	<u>203</u>	<u>11</u>	<u>192</u>	<u>4,967</u>	<u>506</u>	<u>4,461</u>

- 11.4 The term loans of the Group are secured by way of fixed charges over certain land use rights, building and machineries of a subsidiary located in the People's Republic of China.

The term loans are repayable on agreed yearly installment over periods commencing from 2005 to 2010.

The term loans are subject to interest ranging from 5.02% to 5.49% (2003 - 4.78% to 5.18%) per annum.

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11. Borrowings (secured) (continued)

11.5 Murabahah Underwritten Notes Issuance Facility ("MUNIF") granted by licensed banks has the following significant covenant :

- i) Maintain Gearing Ratio not greater than 1.50 times
- ii) Maintain Finance Service Cover Ratio not less than 1.50 times
- iii) Ensure compliance of:
 - (a) All financial covenant and obligations of the Issuer
 - (b) Term and conditions of the Finance Service Account
 - (c) The Finance Service Ratio shall not be less than 1.75 times (Pre-dividend) and 1.50 times (Post-dividend)
 - (d) No event of default

12. Share capital

	Group and Company	
	2004	2003
	RM'000	RM'000
Ordinary shares of RM0.50# (2003 – RM1.00) each		
Authorised:		
At 1 January	50,000	100
Increased during the year	150,000	49,900
	<u>200,000</u>	<u>50,000</u>
Issued and fully paid		
At 1 January	44,000	- *
Issued during the year pursuant to:		
- Private placement	4,400	4,400
- Bonus issue	24,200	-
- Employee share option scheme (ESOS)	356	-
- Acquisition of a subsidiary	-	28,253
- Rights issue	-	4,667
- Public issue	-	6,680
	<u>72,956</u>	<u>44,000</u>
At 31 December	<u>72,956</u>	<u>44,000</u>

* Comprised 2 ordinary shares of RM1.00 each.

The ordinary shares of RM1.00 each were sub-divided into RM0.50 per ordinary share each during the current financial year.

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13. Retained profits (Distributable)

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax exempt income and tax credit to frank all of its retained profits at 31 December 2004, if paid out as dividends.

14. Deferred taxation

The amounts, determined after appropriate offsetting, are as follows:

	Group	
	2004 RM'000	2003 RM'000
Deferred tax liabilities	6,983	5,417
	<u>6,983</u>	<u>5,417</u>

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	Group	
	2004 RM'000	2003 RM'000
Property, plant and equipment		
- capital allowance	3,035	3,752
- revaluation	5,464	3,035
Other timing differences	(1,516)	(1,370)
	<u>6,983</u>	<u>5,417</u>

No deferred tax has been recognised for the following item:

Unutilised tax losses	2,456	2,284
	<u>2,456</u>	<u>2,284</u>

The unutilised tax losses do not expire under current tax legislation except for unutilised tax losses of RM2,238,000 (2003 - RM1,795,000), which relates to a subsidiary in China that will expire after 5 years under China's legislation. Deferred tax assets have not been recognised in respect of the above because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

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15. Operating profit

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Operating profit is arrived at after charging:				
Auditors' remuneration	76	54	10	10
Allowance for doubtful debt	1,510	-	-	-
Depreciation	2,161	1,355	-	-
Directors' emoluments:				
- Remuneration	1,708	581	1,708	265
- Fees	162	73	162	73
Rental of premises	1,411	666	-	-
Rental of equipment	81	114	-	-
Provision for foreseeable losses	1,292	-	-	-
Property, plant and equipment written off	48	-	-	-
Revaluation deficit on property, plant and equipment	344	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
and after crediting:				
Gain on foreign exchange - unrealised	-	119	-	-
- realised	238	-	-	-
Rental income of building	481	320	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The estimated monetary value of Directors' benefits-in-kind of the Group is RM46,800 (2003 - RM11,000).

16. Employee information

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Staff costs	20,047	12,952	1,505	265
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Staff costs include contributions to the Employees Provident Fund of RM1,752,000 (2003 RM1,108,000) for the Group and RM143,000 (2003 - RM29,000) for the Company.

The number of employees of the Group and of the Company at the end of the year was 556 (2003 - 512) and 9 (2003 - 6).

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17. Financing costs

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Interest payable on:				
Bank overdrafts	633	629	-	-
Term loan	881	502	-	-
Hire purchase	178	297	-	-
MUNIF	1,874	-	1,874	-
	<u>3,566</u>	<u>1,428</u>	<u>1,874</u>	<u>-</u>
Bank and other charges	222	12	2	-
	<u>3,788</u>	<u>1,440</u>	<u>1,876</u>	<u>-</u>

18. Tax expense

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Income tax expenses				
- current year	1,556	2,887	2,342	15
- (over)/under provision in prior year	(2,080)	-	57	-
Deferred tax expense (reversal)/origination of temporary differences	(1,007)	593	-	-
	<u>(1,531)</u>	<u>3,480</u>	<u>2,399</u>	<u>15</u>
Reconciliation of effective tax expense				
Profit before tax	<u>12,935</u>	<u>29,055</u>	<u>10,685</u>	<u>2,806</u>
Income tax using Malaysian tax rate (28%)	3,622	8,135	2,992	786
Non-deductible expenses	857	998	470	69
Tax exempt income	(517)	-	(1,120)	(840)
Tax incentive	(3,461)	(460)	-	-
Effect of tax loss not recognised	48	639	-	-
Negative goodwill	-	(5,832)	-	-
	<u>549</u>	<u>3,480</u>	<u>2,342</u>	<u>15</u>
(Over)/Under provision in prior year	(2,080)	-	57	-
	<u>(1,531)</u>	<u>3,480</u>	<u>2,399</u>	<u>15</u>

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19. Earnings per ordinary shares - Group

19.1 Basic earnings per ordinary share

The calculation of basis earnings per share is based on the net profit attributable to ordinary shareholders of RM14,466,000 (2003 - RM25,575,000) and the weighted average number of ordinary shares outstanding during the year of 142,439,000 (2003 - 122,056,000).

	2004 '000	2003 '000
Issued ordinary shares at beginning of the year	44,000	-
Effect of shares issued in May 2003	-	18,577
Effect of shares issued in June 2003	-	2,429
Effect of shares issued in August 2003	-	4,250
Effect of Private Placement in August 2004	1,555	-
Effect of Share Split	48,400	48,400
Effect of Bonus	48,400	48,400
Effect of exercise of ESOS	84	-
	<u>142,439</u>	<u>122,056</u>

19.2 Diluted earnings per share.

The calculation of diluted earning per share is based on the net profit attributable to ordinary shareholder's of RM14,466,000 (2003 - RM25,575,000) and weighted average number of ordinary shares outstanding during the year of 143,812,000 (2003 - 122,056,000).

	2004 '000	2003 '000
Weighted average number of ordinary shares as above	142,439	122,056
Effect of share options	1,293	-
	<u>143,732</u>	<u>122,056</u>

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20. Dividend

	Group	
	2004	2003
	RM'000	RM'000
First and final paid:		
2003 - 5% tax exempt (2002 - Nil)	2,200	-
	<u> </u>	<u> </u>

The proposed final dividend of 6% per share less tax totalling RM3,151,699 has not been accounted for in the financial statements.

The dividends per ordinary share as disclosed in the Income Statement takes into account the proposed final dividend in respect of the year ended 31 December 2004.

21. Contingent liabilities - unsecured

	Company	
	2004	2003
	RM'000	RM'000
Guarantees and contingencies relating to borrowings of subsidiaries	170,700	57,500
	<u> </u>	<u> </u>

22. Commitments

	Group	
	2004	2003
	RM'000	RM'000
Capital commitments:		
Property, plant and equipment		
Contracted but not provided for in the financial statements	6,902	2,322
Authorised but not contracted for	60,425	6,111
	<u> </u>	<u> </u>
	<u>67,327</u>	<u>8,433</u>

23. Related parties

Controlling related party relationships are as follows:

- i) Its subsidiary companies as disclosed in Note 28.
- ii) The substantial shareholders of the Company, Inter Merger Sdn. Bhd.
- iii) Inter Merger Sdn. Bhd., Inter Merger Trading Sdn. Bhd., IM Bina Sdn. Bhd. and Inter Merger Realty & Development Sdn. Bhd., companies in which Dato' Abdul Rani bin Mohd. Razalli, Lee Swee Eng and Gan Siew Liat have substantial financial interest.

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23. Related parties (continued)

Significant transactions with related parties other than those disclosed elsewhere in the financial statements are as follows:

	Group	
	2004	2003
	RM'000	RM'000
<i>Holding Company:</i>		
Inter Merger Sdn. Bhd.		
Rental of premises	-	602
Administrative charges	-	368
<i>Associate:</i>		
KNM-DP Fabricators Sdn. Bhd.		
Contract billings payable	10,560	5,174
Rental income receivable	(481)	(320)
<i>Related companies:</i>		
Inter Merger Trading Sdn. Bhd.		
Purchase of materials	-	370
IM Bina Sdn. Bhd.		
Manpower supply payable	-	37
Contract billings payable	-	1,392
Inter Merger Realty & Development Sdn. Bhd.		
Administrative cost payable	-	141
<i>Related parties:</i>		
Inter Merger Sdn. Bhd.		
Rental of premises	1,209	-
Administrative charges	275	-
Inter Merger Trading Sdn. Bhd.		
Purchase of materials	117	-
IM Bina Sdn. Bhd.		
Manpower supply payable	149	-
Contract billings payable	2,937	-
Inter Merger Realty & Development Sdn. Bhd.		
Administrative cost payable	236	-
	<u> </u>	<u> </u>

Balances with subsidiaries, associates, related companies and related parties at the balance sheet date are as disclosed in Notes 6, 8 and 10.

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

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24. Financial instruments

Financial risk management objectives and policies

Exposure to credit, interest rate, liquidity and foreign currency risks arises in the normal course of business. The Group monitors the interest rate trend and currency exchange rate on an ongoing basis.

Credit risk

The Group's primary exposure to credit risk arises through its receivables. The management has an informal credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The Group also places excess funds with reputable licensed financial institutions. The management is of the view that credit risk exposure to licensed financial institutions is minimal.

Concentration of credit risk arises from exposures to trade receivables from sale of the Group's products for which the risk of non-payment is affected by economic changes in the oil and gas industry. At balance sheet date, the three (3) largest debtors account for 43% (2003 - 47%) of total trade receivables. Except for the above, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group is represented by the carrying amount of the receivables presented in the balance sheet.

Interest rate risk

The Group's exposure to interest rate risk mainly arises through its fixed deposits and borrowings. The Group does not hedge its interest rate risk.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

Group	Effective interest rates per annum %	Total RM'000	Within	1 - 5
			1 year RM'000	years RM'000
<i>Financial asset</i>				
Fixed deposits	2.60	6,693	6,693	-
<i>Financial liabilities</i>				
Bank overdrafts	7.38	1,099	1,099	-
Bills payable	3.15	7,423	7,423	-
Term loan	5.36	23,283	12,012	11,271
MUNIF	3.28	122,000	-	122,000

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24. Financial instruments (continued)

Group	Effective interest rates per annum %	Total RM'000	Within 1 year RM'000	1 – 5 years RM'000
2003				
<i>Financial asset</i>				
Fixed deposits	2.76	2,862	2,862	-
<i>Financial liabilities</i>				
Bank overdrafts	7.48	15,865	15,865	-
Bills payable	7.60	40,173	40,173	-
Term loan	5.18	16,515	5,463	11,052
Company				
2004				
<i>Financial asset</i>				
Amount due from subsidiaries	3.50	80,000	-	80,000
<i>Financial liabilities</i>				
MUNIF	3.28	122,000	-	122,000

Foreign currency risk

The Group's exposure to foreign currency risk is mainly from contract revenue, purchases and borrowings denominated in US Dollars. The Group does not view the exposure to US Dollars to be significant given the current peg.

A subsidiary's financial statements are denominated exclusively in Chinese Renminbi. The Group does not view the exposure to Chinese Renminbi to be significant.

Exposure to foreign currency risk is monitored on an ongoing basis. The Group hedges its foreign currency risk of its trade balances denominated in foreign currency.

Liquidity risk

Prudent liquid risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

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24. Financial instruments (continued)

Fair values

Recognised financial instruments

At balance sheet date, the carrying amounts of trade and other receivables, short term borrowings, trade and other payables approximate fair value due to the relatively short term nature of these financial instruments. In respect of amount due from subsidiary companies, a reasonable estimate of fair value could not be made as the financial instrument has an unspecified period of repayment. The carrying amounts of the long term loans approximate fair values as they are subject to variable interest rates which in turn approximate the current market interest rates for similar loans at balance sheet date.

Unrecognised financial instruments

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date.

The contracted amount and fair value of financial instruments not recognised in the balance sheet of the Group as at 31 December 2004 is:

	← 2004 →		← 2003 →	
	Contracted amount RM'000	Fair value RM'000	Contracted amount RM'000	Fair value RM'000
Forward foreign exchange contracts	137,428	140,476	10,051	10,108

25. Significant events during the year

- 25.1 During the financial year, the authorised share capital of the Company was increased from RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each to RM200,000,000 comprising 400,000,000 ordinary shares of RM0.50 each by the creation of an additional 300,000,000 ordinary shares of RM0.50 each.

During the financial year, the Company has undertaken the following shares issuance:

- (i) Private placement of 4,400,000 ordinary shares of RM1.00 each at an issue price of RM3.50 each on 24 August 2004.
- (ii) Subdivision of the issued and paid up share capital of 48,400,000 ordinary shares of RM1.00 each into 96,800,000 new ordinary shares of RM0.50 each on the basis of two (2) new ordinary shares of RM0.50 each for every one (1) ordinary share of RM1.00 each.

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25. Significant events during the year (continued)

(iii) Bonus issue of 48,400,000 new ordinary shares of RM0.50 each from the share premium and retained profits of the Company, on the basis of one (1) new ordinary share for every two (2) existing ordinary shares held.

(iv) Issue of 712,000 new ordinary shares of RM0.50 each at an option price of RM1.63 each for cash pursuant to the exercise of ESOS of the Company.

All the ordinary shares issued rank pari passu with the existing shares of the Company.

25.2 KNM International Sdn. Bhd. ("KNMI") incorporated KNM Global Ltd., a wholly-owned offshore company. KNM Global Ltd. incorporated in the British Virgin Islands with an authorised share capital of USD50,000, comprising 50,000 ordinary shares of USD1.00 each, and an issued share capital of 3,000 ordinary shares of USD1.00 each.

25.3 On 21 May 2004, KNM International Sdn. Bhd., a wholly owned subsidiary of the Company, entered into a conditional Share Sale and Shareholders Agreement with FBM-Hudson Italiana SpA (FBM), to acquired 50% of the issued and paid-up share capital of FBM-KNM FZCO (JVCO), a company incorporated in the Jebel Ali Free Zone, Dubai, United Arab Emirates, for a cash consideration of EURO10 million.

The acquisition of JVCO was completed in October 2004. KNMI and FBM will each subscribe for an additional EURO2 million ordinary shares of JVCO (Note 8.4).

25.4 On 29 November 2004, KNM Process Systems Sdn. Bhd., a wholly owned subsidiary of the Company, entered into a conditional Sale and Purchase of Share Agreement with the shareholders of Sumber Amantech Sdn. Bhd. ("Sumber Amantech"), a company incorporated in Malaysia, to acquire the entire issued and paid-up share capital of Sumber Amantech, comprising 2 ordinary shares of RM1.00 each, for a cash consideration of RM2.00.

On even date, Sumber Amantech entered into a conditional Sale and Purchase of Shares Agreement with the shareholders of MKE Engineering Sdn. Bhd. ("MKE") to acquire the entire issued and paid-up share capital of MKE, comprising 9,000,000 shares of RM1.00 each for a cash consideration of RM5,800,000.

The above acquisitions were completed subsequent to the financial year end.

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26. Segment information

Segment information is presented in respect of the Group's geographical segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

The Group operates only in one business segment. Accordingly, information by business segments is not presented.

Segments results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The segments are operated in both the local and overseas markets. Overseas market are in the People's Republic of China and United Arab Emirates.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of assets.

Geographical segments

	Malaysia		Overseas		Total	
	2004	2003	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	154,251	61,784	17,808	2,842	172,059	64,626
Segment result	34,788	19,279	2,912	1,105	37,700	20,384
Allocated expenses	(20,240)	(8,072)	(2,825)	(2,792)	(23,065)	(10,864)
Operating profit	14,548	11,207	87	(1,687)	14,635	9,520
Financing costs	-	(1,036)	-	(404)	(3,788)	(1,440)
Interest income	-	127	-	19	241	146
Unallocated negative goodwill					-	20,829
Share of profit of jointly controlled entity	-	-	1,847	-	1,847	-
Profit before taxation					12,935	29,055
Tax expense					1,531	(3,480)
Net profit for the year					14,466	25,575

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26. Segment information (continued)

	Malaysia		Overseas		Total	
	2004	2003	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	205,804	141,699	92,614	31,961	298,418	173,660
Unallocated assets					6,721	-
					<u>305,139</u>	<u>173,660</u>
Segment liabilities	24,610	66,427	3,000	18,677	27,610	85,104
Unallocated liabilities					163,152	9,601
Total liabilities					<u>190,762</u>	<u>94,705</u>
Other information						
Capital expenditure	8,747	4,284	1,627	5,315	10,374	9,599
Depreciation	4,777	3,147	2,001	698	6,778	3,845
Non-cash expenses other than depreciation	2,850	-	344	-	3,194	-

27. Holding companies

During the financial year, Inter Merger Sdn. Bhd. and Perkasa Sistem Sdn. Bhd., both incorporated in Malaysia, ceased to be the holding company and ultimate holding company of the Company respectively.

28. Subsidiaries

The principal activities of the subsidiaries, their places of incorporation and the interests of KNM Group Berhad are as follows:

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest	
			2004	2003
<i>Subsidiaries of the Company</i>				
KNM Process Systems Sdn. Bhd.	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.	Malaysia	100%	100%

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28. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest	
			2004	2003
KNM International Sdn. Bhd.	Provision of management, technical advisory, licence and trademark services to international related companies and related international investments.	Malaysia	100%	100%
<i>Subsidiaries of KNM Process Systems Sdn. Bhd.</i>				
KNM OGPET (East Coast) Sdn. Bhd.	Fabrication and maintenance of oil, gas and petrochemical process equipment.	Malaysia	100%	100%
Duraton Engineering Sdn. Bhd.	Provision of project management and technical services.	Malaysia	100%	100%
Perwira Awan Sdn. Bhd.	Property investment.	Malaysia	100%	100%
<i>Subsidiary of KNM International Sdn. Bhd.</i>				
KNM Overseas (China) Sdn. Bhd.	Investment holding.	Malaysia	100%	100%
KNM Global Ltd.	Provision of management, technical advisory and marketing services.	British Virgin Islands	100%	-
<i>Subsidiary of KNM Overseas (China) Sdn. Bhd.</i>				
KNM Special Process Equipment (Changshu) Co. Ltd.*	Design, manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchanges, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries within the China market.	People's Republic of China	100%	100%

* Audited by another firm of accountants.

Company No. 521348-H

29. Acquisition of subsidiaries

On 2 May 2003, the Company acquired KNM Process Systems Sdn. Bhd.

The acquisition was accounted for using the acquisition method of accounting. For the eight (8) months ended 31 December 2003, the subsidiary contributed a net profit of RM4,955,000 to the consolidated net profit for the year, as follows:

	8 months ended 31 December 2003 RM'000
Income statement:	
Revenue	64,626
Operating costs	(56,206)
	<hr/>
Profit before taxation	8,420
Tax expense	(3,465)
	<hr/>
Increase in the Group's net profit at the end of financial year	<u>4,955</u>

The acquisition had the following effect on the Group's assets and liabilities as at 31 December 2003.

	2003 RM'000
Balance sheet:	
Property, plant and equipment	82,831
Current assets	90,786
Current liabilities	(75,641)
Long term and deferred liabilities	(18,917)
	<hr/>
Increase in the Group's net assets	<u>79,059</u>

Company No. 521348-H

29. Acquisition of subsidiaries (continued)

The fair values of assets and liabilities assumed in the acquisition of KNM Process Systems Sdn. Bhd. and the cash flow effects are as follows:

	2003 RM'000
Non-current assets	
Property, plant and equipment	77,088
Current assets	86,481
Current liabilities	(94,431)
Long term and deferred liabilities	(14,123)
	<hr/>
Net assets	55,015
Negative goodwill on acquisition	(20,829)
	<hr/>
	34,186
Purchase consideration satisfied by way of issuance of shares	(34,186)
	<hr/>
	-
Cash acquired	1,422
	<hr/>
Net cash inflow	<u>1,422</u>

FURTHER INFORMATION

1. RESPONSIBILITY STATEMENT

This Introductory Circular has been seen and approved by the Board who, individually and collectively, accepts full responsibility for the accuracy of the information given in this Introductory Circular and confirms that, after making all enquiries as were reasonable in the circumstances, and to the best of its knowledge and belief, there are no false or misleading statements or other facts, the omission of which would make any statement herein false or misleading.

2. CONSENTS

Avenue has given and have not subsequently withdrawn its written consent to the inclusion in this Introductory Circular of its name and all references thereon in the form and context in which they appear.

3. MATERIAL CONTRACTS

Save as disclosed below, neither KNM nor any of its subsidiaries have entered into any contracts which are or may be material (not being contracts entered into in the ordinary course of business of the Company or its subsidiaries) during the two (2) years immediately preceding the date of this Introductory Circular.

- (i) The conditional share sale and shareholders' agreement dated 21 May 2004 ("Share Sale and Shareholders Agreement") entered into between KNMI and FBM-Hudson Italiana SpA ("FBM") for the proposed acquisition by KNMI of 50% of the issued and paid-up share capital of FBM-KNM FZCO, a company incorporated under the rules and regulations of the Jebel Ali Free Zone Authority (as amended) from FBM for a cash consideration of Euro 10 million or equivalent RM45.6 million (based on the exchange rate of RM4.56 per Euro 1.00 as at 21 May 2004) ("Acquisition") and the proposed subscription of Euro 2 million or equivalent to RM9.12 million (based on the exchange rate of RM4.56 per Euro 1.00 each as at 21 May 2004) by KNMI and FBM respectively new ordinary shares of FBM-KNM FZCO upon completion of the Acquisition;
- (ii) The conditional commercial cooperation agreement dated 21 May 2004 entered into between KNMI and FBM for the commercial cooperation between the said parties on manufacturing or part manufacturing of aircooled heat exchangers including air finned coolers ("Products") for orders from certain countries and to jointly and exclusively market the Products in certain countries;
- (iii) Facility Agreement between KNM and Amanah Short Deposits Berhad ("ASD") dated 3 June 2004; Agency Agreement and Depository Agreement between KNM, ASD and Bumiputra-Commerce Trustee Berhad ("BCTB") dated 3 June 2004; Trust Deed, Security Agency Agreement, Assignment of Designated Accounts and Assignment of Contract Proceeds between KNM and BCTB dated 3 June 2004; and Assignment of Designated Accounts and Assignment of Contract Proceeds between KNMPS and BCTB dated 3 June 2004, for the issuance of up to RM150.0 million Murabahah Underwritten Notes Issuance Facility/Islamic Medium Term Notes;
- (iv) The Interim Escrow Agreement between FBM, KNMI, FBM-KNM FZCO and HSBC Institutional Trust Services (Singapore) Limited ("Escrow Agent") dated 15 October 2004 for provision of interim escrow services by Escrow Agent under the Share Sale and Shareholders Agreement;
- (v) The Escrow Agreement between FBM, KNMI, FBM-KNM FZCO and Escrow Agent dated 15 October 2004 for provision of escrow services by Escrow Agent under the Share Sale and Shareholders Agreement;

- (vi) KNMPS entered into a conditional Sale and Purchase of Shares Agreement between KNMPS as well as Mohd Shahrom Bin Abd Rahim and Hanuar Bin Mohd Darus, being the shareholders of Sumber Amantech Sdn Bhd (“Sumber”) dated 29 November 2004 for acquisition by KNMPS of the entire issued and paid-up share capital of Sumber, comprising 2 ordinary shares of RM1.00 each, for a cash consideration of RM2.00;
- (vii) The conditional Sale and Purchase of Shares Agreement between Sumber as well as Mechmar Corporation (Malaysia) Berhad, Keppel Integrated Engineering Limited, Sigmaindah Resources Sdn Bhd, Duta Legian Sdn Bhd and Tronica Pte Ltd, being the shareholders of MKE Engineering Sdn Bhd (“MKE”) dated 29 November 2004 for acquisition by Sumber of the entire issued and paid-up share capital of MKE, comprising 9,000,000 shares of RM1.00 each for a cash consideration of RM5,800,000; and
- (viii) The Land Tenancy Agreement between Kuantan Port Konsortium Sdn Bhd (“KPK”) and KNM Ogpet (East Coast) Sdn Bhd (“KNM Ogpet”) dated 8 February 2005 wherein KPK agreed to let and KNM Ogpet agreed to rent a portion of the land held under Pajakan Negeri 550 Lot No. 1863, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang for RM49,920.00 per month for the duration of three (3) years with an option to renew for another three (3) years.

4. MATERIAL LITIGATION

KNM and its subsidiaries are not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of KNM and its subsidiaries and the Directors of KNM are not aware of any proceedings, pending or threatened, against KNM and its subsidiaries or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of KNM and its subsidiaries.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of KNM at 15, Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan during normal business hours between Monday and Friday (except public holidays) for a period of two (2) weeks from the date of this Introductory Circular:

- (i) Memorandum and Articles of Association of KNM;
- (ii) Audited consolidated financial statements of KNM for the past two (2) financial years ended 31 December 2004;
- (iii) Unaudited financial statements of the KNM Group for the six (6)-month financial period ended 30 June 2005;
- (iv) The letter of consent referred to in Section 2 of this Appendix; and
- (v) The material contracts referred to in Section 3 of this Appendix.