3.1 Notes to the statement of assets and liabilities

3.1.1 Significant accounting policies

The following accounting policies are adopted by the Proforma Group and the Company and are consistent with those adopted in previous years except for the adoption of the following:

(i) MASB 19, Events After Balance Sheet Date, MASB 20, Provision, Contingent Liabilities and Contingent Assets and MASB 21, Business Combination, which are applied retrospectively. Comparative figures have not been restated as the previous accounting policies were in line with the accounting standards;

(ii) MASB 23, Impairment of Assets which is applied prospectively. The adoption of MASB 23 does not have an effect on the financial statements; and

(iii) MASB 24, Financial Instruments: Disclosure and Presentation which has been adopted prospectively and disclosed accordingly in the notes to the statement of assets and liabilities.

(iv) During the year, the Proforma Group also changed its accounting policy to revalue its property comprising land 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. The change does not have an effect on the financial statements (refer Note 3.1.6).

In view of the restructuring scheme as detailed in Note 1.3 which will be completed in financial year ending 31 December 2003, MASB 25, Income Taxes which will be effective for financial statements beginning on or after 1 July 2002 is applied retrospectively in preparing the proforma statement of assets and liabilities. The effect of application of MASB 25 amounting to RM1,904,000 has been adjusted in the proforma statement of assets and liabilities accordingly.

The adoption of other MASB which will be effective in the financial year ending 2003 will not have significant effects to the financial statements.

3.1.2 Basis of accounting

The financial statements of the Proforma Group and of the Company are prepared in compliance with applicable approved accounting standards in Malaysia.

The Proforma KNM Group financial statements are prepared on the basis that KNM Group is in existence as at 31 December 2002.

3.1.3 Basis of consolidation

Subsidiary companies 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. Subsidiary companies are consolidated using the acquisition method of accounting.

A subsidiary company is excluded from consolidation when control is intended to be temporary if the subsidiary company 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. Subsidiary companies excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiary companies 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 subsidiary companies' net assets are determined and these values are reflected in the Proforma Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or negative goodwill as appropriate.

Goodwill or negative goodwill is written off/recognised in the income statement.

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.

3.1.4 Subsidiary companies

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

3.1.5 Associated companies

Associated companies are those enterprises in which the Proforma 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 associated companies 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 Proforma Group and its associated companies which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Proforma Group's interests in the associated companies. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

3.1.5 Associated companies (continued)

Goodwill or negative goodwill is calculated based on the fair value of net assets acquired.

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

3.1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

The Proforma Group's policy was to state its property including land and buildings at cost. During the year, the Proforma Group changes its policy to revalue its property comprising land 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.

The change does not have an effect on the financial statements. The last revaluation of the long term leasehold land and certain buildings based on their open market values ascertained by professional valuers in October 2000 was carried out for the purpose of a corporate exercise. The next revaluation is expected to be in 2005.

Other property, plant and equipment and additions to the land 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 charged to the income statement. However, a revaluation decrease should be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of the same asset.

Depreciation

Leasehold land is 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%

Capital work-in-progress is stated at cost and not depreciated.

3.1.7 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.

3.1.8 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.

3.1.9 Trade and other receivables

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

3.1.10 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.

3.1.11 Capitalisation of borrowing costs

Borrowing costs incurred on capital work-in-progress and 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 a specific capital work-in-progress or gross amount due from contract customers.

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

3.1.12 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.

3.1.13 Impairment

The carrying amount of the Proforma Group's assets, other than inventories (refer Note 3.1.8), assets arising from construction contracts, and financial assets (other than investment in subsidiary and associated companies), 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.

An 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 determined, net of depreciation or amortisation, if no impairment loss has 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.

3.1.14 Liabilities

Borrowings and trade and other payables are stated at cost.

3.1.15 Taxation

The tax expense in the income statement represents taxation at current tax rates based on profit earned during the year.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

3.1.15 Taxation (continued)

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.1.16 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 Proforma 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:

1USD	RM3.80
1SGD	RM2.17
1EURO	RM3.96
1RMB	RM0.47

3.1.17 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.

3.1.17 Revenue (continued)

ii) Rental income

Rental income is recognised in the income statement on an accrual basis in accordance with the relevant agreement.

iii) Dividend income

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

3.1.18 Interest income

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

3.1.19 Financing costs

All interest and other costs incurred in connection with borrowings, other than that capitalised in accordance with Note 3.1.11, 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.

3.2 Property, plant and equipment - Proforma Group

Proforma Group At 31 December 2002	**Cost RM'000**	**Accumulated depreciation RM'000**	**Net book value RM'000**
Long term leasehold land	8,581	307	8,274
Short term leasehold land	1,634	-	1,634
Buildings	28,566	1,535	27,031
Plant and machinery	30,586	15,742	14,844
Motor vehicles	1,463	882	581
Furniture, fitting and equipment	5,023	1,754	3,269
Capital work-in-progress	4,713	-	4,713
	80,566	20,220	60,346
Add : Proposed capital expenditure	8,190	-	8,190
	88,756	20,220	68,536

3.2.1 Depreciation

Depreciation charge for the year is allocated as follows:

	Proforma Group RM'000
Income statement	1,426
Amount due from contract customers (Note 3.5.2)	3,171
	4,597

3.2.2 Security

Certain leasehold land and buildings of the Proforma Group costing RM27,259,000 are charged to certain licensed banks to secure credit facilities granted to the Proforma Group.

3.2.3 Assets under hire purchase

The net book values of property, plant and equipment acquired under hire purchase and finance leases is as follows:

	Proforma Group RM'000
Plant and machinery	7,146
Motor vehicles	559
	7,705

3.2.4 Borrowings costs

Included in capital work-in-progress of the Proforma Group is interest capitalised at a rate of 5.2% for the year of RM31,000.

3.2.5 Title

The land title of the long term leasehold land acquired during the year is pending issuance by the authorities to the Proforma Group.

3.3 Investment in associated companies

	Proforma Group RM'000
Unquoted shares - at cost	138
Share of post acquisition profit	(138)
	-

The Proforma Group's share of the cumulative losses of KNM-DP and its subsidiary company, KNM-DP HB amounting to RM257,000 has not been recognised in the Proforma Group's income statement as equity accounting ceased with effect from 31 December 2001 when the Proforma Group's share of losses of these associated companies exceeded the carrying amount of its investments in the associated companies.

3.4 Inventories

	Proforma Group RM'000
Raw materials	4,272
Tools and consumables	2,657
	6,929

Tools and consumables of RM2,657,000 are carried at net realisable value.

3.5 Trade and other receivables

	Proforma Group RM'000
Trade receivables	14,098
Less: Allowance for doubtful debts	(1,239)
	12,859
Amount due from contract customers	57,084
Related companies - trade	429
Associated companies	1,809
Other receivables, deposits and prepayments	2,720
Less: Allowance for doubtful debts	(345)
	2,375
	74,556

3.5.1 Trade receivables

During the year, the Profoma Group wrote off debts amounting to RM209,000 against the allowance for doubtful debts.

3.5.2 Amount due from contract customers

	Proforma Group RM'000
Aggregate cost incurred to date	165,638
Add: Attributable profits	58,456
	224,094
Less: Progress billings	(167,027)
	57,067
Amount due to contract customers (Note 3.7)	17
Amount due from contract customers	57,084

3.5.2 Amount due from contract customers (continued)

Additions to aggregate costs incurred during the year include:

	Proforma Group RM'000
Depreciation (Note 3.2.1)	3,171
Hire of plant and machinery	1,726
Interest expenses	1,371
Rental of premises	317
Staff costs	189

Included in aggregate costs incurred during the year is interest capitalised at a rate of 1.5% per annum above the lenders' base lending rate.

3.5.3 Associated companies

The amount due from associated companies are unsecured, interest free with no fixed term of repayment and relate to:

	Proforma Group RM'000
Trade	1,768
Advances	41
	1,809

3.5.4 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments are:

i) A deposit of RM165,000 paid for the acquisition of land; and

ii) Rental deposit for building of RM165,000 paid to the holding company.

3.6 Cash and cash equivalents

	Proforma Group RM'000
Cash and bank balances	1,639
Deposits with licensed banks	8,130
	9,769

Deposits of the Proforma Group amounting to RM6,800,000 are placed with licensed banks as security for credit facilities granted to subsidiary companies.

3.7 Trade payable and other payable

	Audited Company RM'000	Proforma Group RM'000
Trade payables	-	4,687
Amount due from contract customers (Note 3.5.2)	-	17
Holding company - trade	-	544
Related companies - trade	-	767
Other payables and accrued expenses	8	3,895
	8	9,910

3.8 Borrowings (secured)

	Proforma Group RM'000
Current:	
Bank Overdrafts	34,186
Bills payable	28,523
Term loan	200
Hire Purchase liabilities	2,210
	65,119
Non-current:	
Term loan	4,599
Hire purchase liabilities	3,303
	7,902
	73,021

3.8.1 Debt repayment schedule

Proforma Group At 31 December 2002	Total RM'000	Under 1 year RM'000	1 - 2 year RM'000	2 - 5 year RM'000
Bank overdrafts	34,186	34,186	-	-
Bills payable	28,523	28,523	-	-
Term loan	4,799	200	1,372	3,227
Hire purchase liabilities	5,513	2,210	1,567	1,736
	73,021	65,119	2,939	4,963

3.8.2 Bank overdraft and bills payables

The bank overdrafts and bill payable are secured by:

i) Legal charges over certain long term leasehold land and buildings of the Proforma Group;

ii) Time deposit of RM1,000,000 of a subsidiary company; and

iii) Placement of fixed deposits of up to 20% of the total ad-hoc facilities limit together with the duly executed and stamped Letter of Set Off.

The bank overdrafts and bills payable are subject to interest ranging 1.0% to 1.5% per annum above the lenders' base lending rate or discount rate.

3.8.3 Term loan

The term loans are secured by:

i) Legal charge over certain leasehold land and buildings of the Proforma Group;

ii) Legal charge over a short term leasehold land and machineries up to 70% and 50% of the market value respectively;

iii) A lien over the fixed deposits pledged amounting to RM1,832,000 in the name of a subsidiary company; and

iv) Charge over assets acceptable to the bank.

The term loan of a subsidiary company is subjected to interest at 1.5% per annum above the lenders' base lending rate and effective cost of funds are repayable in equal monthly instalments ranging from 4 years to 5 years.

Another term loan of the subsidiary company is subjected to interest at 0.5% per annum above the lender's effective cost of funds and interest is repayable semi-annually while principal is repayable on maturity.

The term loan of another subsidiary company is subjected to interest at 0.5% per annum above the lending interbank offered rate and interest is repayable during the period of land development.

In connection with the credit facilities granted by the licensed banks, the Proforma Group has agreed on the following significant covenants, among others:

i) the shareholders' funds of a subsidiary company 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 lender and consent shall not be unreasonably withheld by the lending bank;

iii) not to create any new charges or provide additional securities in favour of other lenders which would not be unreasonably withheld by the lending bank;

3.8.3 Term loan (continued)

iv) the ratio of total debt to tangible net worth shall not exceed 3 : 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 a subsidiary company'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 company's income or profit is, or might be, shared with any other parties or enter into any management contract whereby the subsidiary company's business and operations are managed by other parties without prior consent from the lenders.

3.8.4 Hire purchase liabilities

Hire purchase liabilities are subject to interest at rates ranging from 3.9% to 7.5% per annum.

Hire purchase liabilities are payable as follows:

	Payments RM'000	Interest RM'000	Principal RM'000
Less than one year	2,626	416	2,210
Between one and five years	3,690	387	3,303
	6,316	803	5,513

3.9 Share capital

	Audited Company RM'000	Proforma Group RM'000
Authorised	100	50,000
Issued and fully paid:		
At 31 December 2002	@	@
28,253,182 new ordinary shares at an issue price of RM1.21 per ordinary shares for the acquisition of the entire issued and paid-up capital of KNMPS	-	28,253
Rights issue of 4,666,816 new ordinary shares at an issue price of RM1.00 per ordinary share	-	4,667
Public issue of 6,680,000 new ordinary shares at an issue price of RM1.48 per ordinary share	-	6,680
Placement of 4,400,000 new ordinary shares at an issue price of RM1.48 per ordinary share	-	4,400
	@	44,000

@ *Two (2) ordinary shares of RM1.00 each.*

3.10 Share premium

	Proforma Group RM'000
28,253,182 new ordinary shares at an issue price of RM1.21 per ordinary share for the acquisition of the entire issued and paid-up capital of KNMPS	5,933
Public issue of 6,680,000 new ordinary shares at an issue price of RM1.48 per ordinary share	3,206
Placement of 4,400,000 new ordinary shares at an issue price of RM1.48 per ordinary share	2,112
Less: Estimated listing expenses	(1,500)
	9,751

3.11 Negative goodwill

	Proforma Group RM'000
Net tangible assets of KNMPS Group acquired by KNM as at 31 December 2002	55,684
Less: Special dividend payable prior to acquisition (Note 1.3.4)	(2,880)
Less: Deferred tax effect on revaluation of properties of KNMPS Group arising from application of MASB25	(1,904)
	50,900
Less: Purchase consideration	(34,186)
Negative goodwill	16,714
Recognised in income statement	(16,714)
	-

3.12 Capital commitments

	Proforma Group RM'000
Property, plant and equipment	
Contracted but not provided for in the financial statements	12,725
Authorised but not contracted for	1,185
	13,910

3.13 Financial instruments

Financial risk management objectives and policies

Exposure to credit, interest rate and foreign currency risks arises in the normal course of business. The Proforma Group monitors the interest rate trend and currency exchange rate on an ongoing basis. Based on the analysis of the market situation and taking into consideration the advice of the Proforma Group's key bankers, the Proforma Group determines and varies the risk management objectives and tolerance limits.

Credit risk

The Proforma 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.

3.13 Financial instruments (continued)

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

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Proforma Group is represented by the carrying amount of the receivables presented in the balance sheet.

Interest rate risk

The Proforma Group exposures to interest rate risk mainly arises through its fixed deposits and borrowings.

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.

Proforma Group 2002	**Effective interest rates %**	**Total RM**	**Within 1 year RM**	**1 – 5 years RM**
Financial asset				
Fixed deposits	2.40	8,130	8,130	-
Financial liabilities				
Bank overdrafts	7.42	34,186	34,186	-
Bills payable	7.14	28,523	28,523	-
Term loans	4.66	4,799	4,799	-

Foreign currency risk

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

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

Exposure to foreign currency risk is monitored on an ongoing basis. The Proforma Group does not hedge their foreign currency risk.

3.13 Financial instruments (continued)

Fair values

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. 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.

3.14 Proforma consolidation cash flow statement

The cash flow statements of the Company and the Proforma Group set out below are based on the audited financial statements of KNM and the audited financial statements of its subsidiary and associated companies for the year ended 31 December 2002, on the basis that the KNM Group under the restructuring scheme as detailed in Note 1.3 and the placement, public issue and utilisation of proceeds had been effected on 31 December 2002.

	Year ended 31 December 2002	
	Audited Company RM'000	**Proforma Group RM'000**
Cash flows from operating activities		
(Loss)/Profit before tax	(3)	27,326
Adjustments for:		
Depreciation	-	1,426
Gain on disposal of property, plant and equipment	-	(133)
Interest expense	-	2,364
Interest income	-	(85)
Property, plant and equipment written off	-	469
Negative goodwill recognised	-	(16,714)
Operating (loss)/profit before working capital changes	(3)	14,653
(Increase)/Decrease in working capital		
Inventories	-	(1,967)
Trade and other receivables	3	(24,546)
Trade and other payables	-	2,912
Cash used in operations	-	(8,948)
Income tax paid	-	(948)
Interest paid	-	(3,018)
Interest received	-	85
Net cash used in operating activities	-	(12,829)
Cash flows from investing activities		
Increase in pledged deposits placed with licensed banks	-	(4,377)
Proceeds from disposal of property, plant and equipment	-	141
Purchase of property, plant and equipment	-	(21,931)
Net cash used in investing activities	-	(26,167)

3.14 Proforma consolidation cash flow statement (continued)

	Year ended 31 December 2002 Proforma Company RM'000	Proforma Group RM'000
Cash flows from financing activities		
Proceeds from rights issues	-	4,667
Proceeds from placement	-	6,512
Proceeds from public issue	-	9,886
Net proceeds from bills payable	-	8,036
Repayment from holding company	-	1,204
Repayment of hire purchase liabilities	-	(1,974)
Estimated listing expenses	-	(1,500)
Proceeds from term loan	-	12,929
Repayment of term loan	-	(12,680)
Hire purchase interest paid	-	(421)
Term loan interest paid	-	(296)
Dividend paid to shareholders of KNMPS prior to acquisition by KNM	-	(2,880)
Net cash generated from financing activities	-	23,483
Net decrease in cash and cash equivalents	-	(15,513)
Cash and cash equivalents at beginning of year	-	(15,704)
Cash and cash equivalents at end of year	-	(31,217)

Notes to proforma consolidated cashflow statement

(i) Cash and cash equivalents comprise:

Cash and bank balances	-	1,639
Deposits with licensed banks (excluding deposits pledged)	-	1,330
Bank overdrafts	-	(34,186)
	-	(31,217)

(ii) Purchase of property, plant and equipment

During the year, the Proforma Group acquired property, plant and equipment with an aggregate cost of RM25,620,000 of with RM3,689,000 was acquired by means of hire purchase.

3.15 Proforma net tangible assets cover

Based on the statement of assets and liabilities of the Proforma KNM Group as at 31 December 2002, the net tangible assets cover will be as follows:

	Proforma Group RM'000
NTA per statement of assets and liabilities of the Proforma Group as at 31 December 2002	70,457
Issued and paid-up share capital	
Number of ordinary shares of RM1.00 each assumed in issue by the Proforma Group as at 31 December 2002	44,000
Proforma net tangible assets cover per ordinary share of RM1.00 each (RM)	1.60

3.16 Events subsequent to the balance sheet date as at 31 December 2002

Other than the completion of the acquisition of KNMPS and KNMI and rights issue to existing shareholders of KNM as referred to in Section 1.3, no events have arisen subsequent to the balance sheet date which requires disclosure in this report.

3.17 Audited financial statements

No audited financial statements have been drawn up for any period subsequent to 31 December 2002.

Yours faithfully

KPMG

KPMG
Firm Number: AF 0758
Chartered Accountants

Chan Kam Chiew
Partner
Approval Number: 2055/6/04 (J)