

8. OTHER INFORMATION ON THE KNM GROUP

8.1 Information On Landed Properties And Buildings Owned By The KNM Group

Please refer to Section 4.4.16 of this Prospectus.

8.2 Acquisition Of Properties During The Two (2) Years Preceding The Date Of The Prospectus

Date of acquisition	Registered / Beneficial owner	Location	Existing Use And, Built-up Area And Approximate Age of Building	Land Area and Tenure	Audited Net Book Value/Cost @ 31.12.2002 RM
18 October 2002	KNMPS	PM 372 Lot 2136, Mukim Tanjung Minyak, District of Melaka Tengah, Melaka	Building (Residential) 111 m ² 7 years	99 years (leasehold) Expires on 10 May 2093	74,967
18 October 2002		PM 423 Lot 2132, Mukim Tanjung Minyak, District of Melaka Tengah, Melaka	Building (Residential) 111 m ² 7 years	99 years (leasehold) Expires on 10 May 2093	74,967
18 December 2002		PM 339 Lot 2170, Mukim Tanjung Minyak, District of Melaka Tengah, Melaka	Building (Residential) 250 m ² 7 years	99 years (leasehold) Expires on 10 May 2093	93,100
18 December 2002		PM 340 Lot 2171, Mukim Tanjung Minyak, District of Melaka Tengah, Melaka	Building (Residential) 113 m ² 7 years	99 years (leasehold) Expires on 10 May 2093	73,500
18 December 2002		PM 341 Lot 2172, Mukim Tanjung Minyak, District of Melaka Tengah, Melaka	Building (Residential) 113 m ² 7 years	99 years (leasehold) Expires on 10 May 2093	73,500
10 July 2002	KNMSPEC	Jiangsu Province Changshu Economic Development Area "Chan Rang Guo Yong (2002) Zi No. 192"	Land (Industrial) 33,537.5m ²	50 years (leasehold) Expires on 9 July 2052	RMB3,521,000
		Jiangsu Province Changshu Economic Development Area "Chan Rang Guo Yong (2002) Zi No. 192"	Building (Industrial) 33,537.5m ²	50 years (leasehold) Expires on 9 July 2052	RMB10,166,580

9. FINANCIAL INFORMATION

9.1 Profit And Dividend Record

9.1.1 KNM

KNM was incorporated in Malaysia as an investment holding company on 22 July 2000 pursuant to the restructuring exercise implemented, as detailed in Section 4.3 of this Prospectus.

9.1.2 KNM Group – Proforma

The following tables, which has been extracted from the Accountant's Report in Section 10 of this Prospectus, is a summary of the proforma consolidated turnover and profit records of KNM for the past 5 years ended 31 December 2002. The proforma consolidated financial results are prepared for illustrative purposes and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report.

	<-----Year ended 31 December----->				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	54,903	65,742	75,595	73,427	107,352
Profit before depreciation and interest	6,416	8,168	11,782	10,080	14,317
Depreciation	(458)	(522)	(921)	(796)	(1,426)
Interest expense	(1,338)	(860)	(966)	(1,681)	(2,364)
Interest income	235	119	153	294	85
Operating profit	4,855	6,905	10,048	7,897	10,612
Exceptional item	-	1,353	69	-	-
Share of results of associated companies	41	198	2	(280)	-
Profit before taxation	4,896	8,456	10,119	7,617	10,612
Taxation	(1,890)	-	(1,614)	(1,212)	(2,341)
Profit after taxation	3,006	8,456	8,505	6,405	8,271
Number of ordinary shares assumed in issue	28,253	28,253	28,253	28,253	28,253
Earnings per share (sen)					
- Gross	17.3	29.9	35.8	27.0	37.6
- Net	10.6	29.9	30.1	22.7	29.3

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9. FINANCIAL INFORMATION (Cont'd)

Notes:

- (1) *There were no extraordinary or exceptional items in the financial years under review other than the negative goodwill arising from the acquisition of PASB and DE in 1999 and 2000 respectively.*
- (2) *Turnover:*
- (a) *Revenue of 1998 was affected by the economic recession in 1997 and 1998. Turnover suffered only a slight decline in 1998 as a result of management's decision to focus on its core activity in manufacturing specialised process equipment for the oil, gas and petrochemical industry during the downturn.*
 - (b) *In 1999, the Group enjoyed robust growth in revenue attributed to more projects undertaken by KNMPS, following the recovery of the local and regional economies. The booming crude oil prices have further resulted in stronger demand for KNMPS's core products and services.*
 - (c) *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.*
 - (d) *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.*
 - (e) *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.*
- (3) *Operating Profits*
- (a) *Growth in the operating profit for 1998 was severely hampered by a decline in turnover and escalating manufacturing costs. The Group experienced keen competition as a result of the economic recession in 1997 and 1998.*
 - (b) *In 1999, operating profit rebounded sharply in line with the improvement in turnover and the recovery of gross profit margin. This was aided by the general recovery of the local and regional economies and the pegging of RM to USD.*
 - (c) *The operating profits in 2000 saw a significant improvement principally due to improved margins earned from projects undertaken.*
 - (d) *However, 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.*
 - (e) *The operating profit in 2002 increased in line with the increase in turnover.*
- (4) *Taxation*
- (a) *KNMPS enjoys reinvestment allowance under the Promotion of Investment Act, 1986 since 1994. Pursuant to the Budget 2002, the period during which capital expenditure incurred will be eligible for the reinvestment allowances is extended to 15 years effective from Year of Assessment 1998.*
 - (b) *For the financial year ended 31 December 1998, the effective tax rates were higher than the statutory tax rate, despite the reinvestment allowance enjoyed by KNMPS, due to certain expenses disallowed for tax purposes.*
 - (c) *Income tax was not provided for the financial year ended 31 December 1999 in view of the tax waiver for 1999 pursuant to the Income Tax (Amendment) Act, 1999.*
 - (d) *The effective tax rates for the financial years ended 31 December 2000, 2001 and 2002 were lower than the statutory tax rate due to the utilisation of reinvestment allowances available to KNMPS.*

9. FINANCIAL INFORMATION (Cont'd)

9.1.3 Segmental Analysis Of Consolidated Revenue And Profit For The Proforma KNM Group

(i) Analysis of Revenue

Revenue	-----Year ended 31 December----->				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Process equipment	46,823	55,471	53,625	44,099	93,873
Terminals, refineries and process plants	4,689	9,638	21,906	27,537	10,134
Steel structural systems	2,733	-	-	-	274
Plant maintenance	658	633	64	1,791	3,071
Total	54,903	65,742	75,595	73,427	107,352

(ii) Gross Profit Margin Analysis

Gross profit	-----Year ended 31 December----->				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Process equipment	7,579	12,998	13,163	12,603	25,435
Terminals, refineries and process plants	685	3,970	3,828	8,033	302
Steel structural systems	(573)	272	-	-	125
Plant maintenance	36	(401)	44	980	843
Changes in inventory level	2,763	(2,191)	4456	(881)	2,128
Total	10,490	14,646	21,491	20,735	28,833

9.1.4 Impact Of Fluctuations In Foreign Exchange Rates

The process equipment for the oil, gas and petrochemical industries are subjected to fluctuations in foreign exchange rates in terms of import of raw materials as well as undertaking business overseas. However, the risks of unfavourable fluctuations in the exchange rates have been mitigated due to the pegging of the Ringgit to the USD in 1999. In addition, it is common within the industry for operators to charge the total cost of raw materials directly to the customer. As such, exposure to foreign exchange fluctuation is commonly borne by the customer.

9.1.5 Directors' Declaration On Financial Performance

As at 16 June 2003 being the latest practicable date prior to the printing of this Prospectus, the financial conditions and operations of the Company and its subsidiaries are not affected by any of the following:-

- a. known trends, demands, commitments, events or uncertainties that have had or that the Group reasonable expects to have a material favourable or unfavourable impact on the financial performance, position and operations of the Group;
- b. material commitment for capital expenditure;
- c. unusual, infrequent events or transactions or any significant economic changes that materially affected the financial performance, position and operations of KNM; and
- d. known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

9. FINANCIAL INFORMATION (Cont'd)

9.1.6 Working Capital, Borrowings, Contingent Liabilities And Capital Commitments

(i) Working Capital

The Directors of KNM are of the opinion that, barring any unforeseen circumstances and after taking into consideration the cash flow projections and the banking facilities available and the net proceeds of the Rights Issue, Placement and Public Issue, KNM will have adequate working capital for the next twelve months from the date of this prospectus.

(ii) Borrowings

As at 3 June 2003, the Group's total bank borrowings amounts to RM57.76 million of which RM46.84 million represents short term borrowings while the remainder of RM10.92 million represents its long term loans. All of the above amounts are interest-bearing loans.

Saved as disclosed above, the Group does not have any other loan capital outstanding or created but unissued, mortgages or charges outstanding.

There is no default on payment of either interest nor principal sum in respect of any borrowings throughout the past one (1) financial year and the subsequent financial year thereof immediately preceding the date of this prospectus.

(iii) Contingent Liabilities

As at 3 June 2003, the Group does not have any material contingent liabilities.

(iv) Capital Commitments

As at 3 June 2003, the Group has capital commitments amounting to RM13.91 million for the purchase of property, plant and equipment.

	Amount
	RM'000
Property, plant and equipment:	
Approved and contracted for	12,725
Approved but not contracted for	1,185
TOTAL	13,910

(v) Material Litigations

As at 3 June 2003, the Company and its subsidiaries are presently not engaged in any litigation whether as a plaintiff or defendant which has a material effect on the financial position of the Company or any of its subsidiaries and the Directors do not know of any proceedings whether pending or threatened 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.

9. FINANCIAL INFORMATION (Cont'd)

9.2 Future Information

9.2.1 Consolidated Profit Forecast For The Financial Year Ending 2003

Barring unforeseen circumstances, the Directors forecast that the consolidated profit after taxation of the KNM Group for the financial year ending 31 December 2003 will be as follows:

Financial Year Ending 31 December	Forecast 2003 RM'000
Revenue	110,000 ⁽⁴⁾
Consolidated profit before taxation	10,943
Less : Taxation	2,474
Consolidated profit after taxation before pre-acquisition profit	8,469
Less : Pre-acquisition profit ⁽¹⁾	(3,292)
Consolidated profit after taxation before negative goodwill	5,177
Add : Negative goodwill	20,006
Consolidated profit after taxation and negative goodwill ⁽³⁾	25,183
Weighted average number of shares in issue ('000)	23,358
Enlarged number of shares in issue ('000)	44,000

Based on consolidated profit after taxation and pre-acquisition profit:

Net EPS (sen) ⁽⁵⁾	
- before negative goodwill	22.2
- after negative goodwill	107.8
Fully diluted net EPS (sen) ⁽²⁾	
- before negative goodwill	11.8
- after negative goodwill	57.2
Net PE Multiple based on the issue/placement price of RM1.48 per share (times) ⁽⁵⁾	
- before negative goodwill	6.7
- after negative goodwill	1.4
Fully diluted net PE Multiple based on the issue/placement price of RM1.48 per share (times) ⁽²⁾	
- before negative goodwill	12.5
- after negative goodwill	2.6

9. FINANCIAL INFORMATION (Cont'd)

Financial Year Ending 31 December	Forecast 2003 RM'000
Based on consolidated profit after taxation, but before pre-acquisition profit and negative goodwill (for illustration purposes only*):	
Consolidated profit before taxation (as above)	10,943
Less : Taxation (as above)	2,474
Consolidated profit after taxation (as above)	8,469
Number of shares in issue ('000)	44,000
Gross EPS (sen)	24.9
Net EPS (sen)	19.2
Gross PE Multiple based on the issue/placement price of RM1.48 per share (times)	5.9
Net PE Multiple based on the issue/placement price of RM1.48 per share (times)	7.7

* As the Acquisition of KNMPS is based on the adjusted NTA of KNMPS as at 31 December 1999, it is assumed, for illustration purposes only, that the Acquisitions of KNMPS and KNMI, Rights Issue, Public Issue and Placement, were all completed on 1 January 2000. Hence, there would be no negative goodwill or pre-acquisition profit arising therefrom.

Notes :

- (1) Computed based on pro-rated five (5) months profit up to the date of acquisition in May 2003
- (2) Calculated based on the enlarged issued and paid-up share capital of 44,000,000 ordinary shares of RM1.00 each
- (3) As the restructuring exercise of the KNM Group is completed by May 2003, the effects of the pre-acquisition profit that arises when the restructuring exercise is completed as well as the recognition of negative goodwill have been accounted for in the above consolidated profit after taxation for the financial year ending 31 December 2003.

The KNM Group's accounting policy is to write off goodwill or recognize the negative goodwill to the income statement, and as such the consolidated profit after taxation for the financial year ending 31 December 2003 includes negative goodwill of RM20,006,000.

9. FINANCIAL INFORMATION (Cont'd)

(4)

As at 31 March 2003	RM'000	% of total revenue for financial year ending 31 December 2003
Revenue to be recognised from secured contracts	67,670	61.5
Revenue to be recognised from unsecured contracts	42,330	38.5
Total revenue	110,000	100.0

(5) Calculated based on the weighted average number of shares in issue of approximately 23.358 million ordinary shares of RM1.00 each

The principal assumptions upon which the consolidated profit forecast has been made are set out below.

Underlying Bases And Assumptions To The Consolidated Profit Forecast For The Financial Year Ending 31 December 2003

The principal bases and assumptions upon which the consolidated profit forecast has been made are as set out below.

1. There will be no material changes in the present legislation or Government regulations, inflation rates and duties, levies and taxes which may adversely affect the operations of the KNM Group or the markets in which it operates.
2. There will be no major industrial disputes or any abnormal circumstances which may adversely affect the KNM Group's operations, sales or disrupt its planned operations, suppliers or customers.
3. There will be no significant changes to the prevailing Malaysian and world economic environment and political and market conditions which may directly or indirectly have an adverse effect on the activities or performance of the KNM Group and the business of the Group's major customers and suppliers.
4. Existing financing facilities will remain available to the KNM Group; expiring financing facilities will be renewed and interest rates will not change significantly from those presently prevailing. The KNM Group will also be able to obtain new financing facilities at the present prevailing rates.
5. There will be no material changes in the existing accounting, management and operational policies of KNM Group except for the adoption of MASB 25 to MASB 27 and MASB 28 to MASB 30 mandated by the Malaysian Accounting Standards Board ("MASB") for the financial period beginning on or after 1 July 2002 and 1 January 2003 respectively.
6. There will be no material changes in the current principal activities, composition and structure of the KNM Group.
7. There will be no material changes in the availability and costs of raw materials normally used by the KNM Group, mainly steel plates.
8. There will be no major capital and revenue cost items variations that are beyond the control of the KNM Group.

9. FINANCIAL INFORMATION (Cont'd)

9. Inflation rate will not change materially from its current level. The exchange rates assumed for the purpose of the consolidated profit forecast are not materially different from the following:
- USD 1: RM3.80
RMB1: RM0.47
10. There will be no material changes in the value of contracts expected to be awarded, contract prices, costs and timing of projects to be undertaken by the KNM Group.
11. All contracts awarded and expected to be obtained will commence and complete according to schedule. There will be no significant deviation or delay from the expected physical completion date for all contracts work-in-progress.
12. There will be no significant changes in the current demand for the KNM Group's contract works and products and in the prevailing market relating to these products which will adversely affect the performance of the KNM Group. The sales of the KNM Group's projects will materialise as forecast.
13. The principals will not postpone the commencement or delay the completion of the contracts awarded to the KNM Group. In addition, the principals will be able to finance the projects according to schedule.
14. All trade debts arising from contract billings are collectible and those known to be doubtful have been adequately provided for.
15. There will be no material contingent liabilities arising during the forecast period which may materially affect the forecast.
16. Capital expenditure will be implemented and incurred on schedule with no material variation in costs. There will be no material additions or disposals of property, plant and equipment other than those planned.
17. The negative goodwill in the financial year ending 31 December 2003 has been computed based on the excess of:
- i) the net tangible assets of the KNMPS Group as at 31 December 2002 and the 5 months proforma consolidated profit after taxation from January 2003 to May 2003 (which is assumed to accrue evenly); and
 - ii) the deferred tax liability arising from revaluation of landed properties in 2000 pursuant to the adoption of MASB 25: Income Taxes for the financial year ending 31 December 2003 which is applied retrospectively;
- over
- iii) the consideration of the proposed purchase of KNMPS by KNM amounting to RM34,186,350.

9. FINANCIAL INFORMATION (Cont'd)

18. The consolidated profit forecast reflects the gross proceeds arising from the proposed rights issue, placement and public issue amounting to RM21,065,216 which is expected to be received by 15 August 2003 as follows:

	RM'000
i) Rights issue	4,667
ii) Placement	6,512
iii) Public issue	9,886
	<u>21,065</u>

and will be utilised in the following manner:

i) Repayment of term loan	11,077
ii) Capital expenditure	8,190
iii) Working capital purposes	298
iv) Listing expenses	1,500
	<u>21,065</u>

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9. FINANCIAL INFORMATION (Cont'd)



Subject to the matters stated in the preceding paragraphs:

- i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the Prospectus, do not provide a reasonable basis for the preparation of the profit forecast; and
- ii) in our opinion, the profit forecast, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by KNM Group in its audited financial statements for the year ended 31 December 2002 save for the adoption of MASB 25, Income Taxes which will be effective for financial statements beginning on or after 1 July 2002.

Yours faithfully

A handwritten signature in black ink that reads 'KPMG'.

KPMG

Firm Number : AF 0758
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Chan Kam Chiew'.

Chan Kam Chiew

Partner

Approval Number : 2055/06/04(J)

9. FINANCIAL INFORMATION (Cont'd)

9.2.3 Directors' Analysis On Profit Forecast

For the financial years ended 31 December 2003, the Directors forecast a profit after taxation of RM8.469 million on a turnover of RM110 million. The Directors are of the opinion that the forecasted profit is achievable based on the assumptions set out in the preceding sections.

For the financial year ending 31 December 2003, the Group is expected to record an increase of 2.47% in turnover, from RM107.352 million in 2002 to RM110 million. The Group is also expecting an increase of 2.39% in its profit after tax from RM8.27 million in 2002 to RM8.469 million in 2003, mainly attributable to the increased turnover.

The Directors of KNM have reviewed and analysed the reasonableness of the bases and assumptions used in arriving at the profit forecast for the financial year ending 31 December 2003 and are of the opinion that the profit forecast for the financial year ending 31 December 2003 is true and fair in light of the future prospects of the industry, future plans and strategies, level of gearing, liquidity and working capital requirements to be adopted by the Company.

9.3 Sensitivity Analysis

9.3.1 Variations In Turnover

	Forecast for the financial year ending 31 December 2003*	
	Profit Before Taxation	Profit After Taxation
	RM'000	RM'000
Forecast	10,943	8,469
Up 15%	15,331	11,866
Up 10%	13,869	10,733
Up 5%	12,406	9,601
Down 15%	6,555	5,072
Down 10%	8,017	6,205
Down 5%	9,480	7,337

* Before pre-acquisition profit and negative goodwill

The sensitivity analysis is prepared based on the forecast assumptions as set out in Section 9.2.1 above and that all other things remain unchanged except for the 5%, 10% and 15% upward or downward variations in the turnover and the resultant increase in cost of sales. As the nature of KNM Group's business is on job/project basis, it is assumed that an increase in sales will result in an increase in cost of sales by the same proportions.

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9. FINANCIAL INFORMATION (Cont'd)

9.3.2 Variations In Cost Of Sales

	Forecast for the financial year ending 31 December 2003*	
	Profit Before Taxation	Profit After Taxation
	RM'000	RM'000
Forecast	10,943	8,469
Up 15%	(1,169)	(905)
Up 10%	2,869	2,219
Up 5%	6,906	5,344
Down 15%	23,055	17,843
Down 10%	19,017	14,719
Down 5%	14,980	11,594

* Before pre-acquisition profit and negative goodwill

The sensitivity analysis is prepared based on the forecast assumptions as set out in Section 9.2.1 above and that all other things remain unchanged except for the 5%, 10% and 15% upward or downward variations in the cost of sales.

9.3.3 Variations In Operating Expenses

	Forecast for the financial year ending 31 December 2003*	
	Profit Before Taxation	Profit After Taxation
	RM'000	RM'000
Forecast	10,943	8,469
Up 15%	8,081	6,254
Up 10%	9,035	6,993
Up 5%	9,989	7,731
Down 15%	13,804	10,685
Down 10%	12,850	9,946
Down 5%	11,897	9,208

* Before pre-acquisition profit and negative goodwill

The sensitivity analysis is prepared based on the forecast assumptions as set out in Section 9.2.1 above and that all other things remain unchanged except for the 5%, 10% and 15% upward or downward variations in operating expenses.

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9. FINANCIAL INFORMATION (Cont'd)

9.4 Dividend Forecast

It is the policy of the Directors of KNM in recommending dividends to allow shareholders to participate in the profits of the Group as well as leaving adequate reserves for the future growth of the Group.

Barring unforeseen circumstances, the Directors of KNM intend to declare a tax-exempt dividend of 4% for the financial year ending 31 December 2003 based on the enlarged issued and paid-up share capital of 44,000,000 ordinary shares of RM1.00 each in KNM.

Financial Year Ending 31 December 2003	RM'000
Consolidated profit before taxation	10,943
Less: Taxation	2,474
Consolidated profit after taxation before pre-acquisition profit	8,469
Less : Pre-acquisition profit	(3,292)
Consolidated profit after taxation before negative goodwill	5,177
Add : Negative goodwill	20,006
Consolidated profit after taxation and negative goodwill	25,183
Less: Proposed dividend (tax exempt)	1,760
Retained profit for the year	23,423
Dividend per ordinary share (sen)	4.00
Dividend yield based on the issue price of RM1.48 per ordinary share (%)	2.70

Based on consolidated profit after taxation and pre-acquisition profit:

Net dividend cover (times)	
- before negative goodwill	2.9
- after negative goodwill	14.3

Based on consolidated profit after taxation, but before pre-acquisition profit and negative goodwill (for illustration purposes only*):

Consolidated profit before taxation (as above)	10,943
Less : Taxation (as above)	(2,474)
Consolidated profit after taxation (as above)	8,469
Less : Proposed dividend (tax exempt)	(1,760)
Retained profit for the year	6,709
Gross dividend cover (times)	6.2
Net dividend cover (times)	4.8

* As the Acquisition of KNMPS is based on the adjusted NTA of KNMPS as at 31 December 1999, it is assumed, for illustration purposes only, that the Acquisitions of KNMPS and KNMI, Rights Issue, Public Issue and Placement, were all completed on 1 January 2000. Hence, there would be no negative goodwill or pre-acquisition profit arising therefrom.

9. FINANCIAL INFORMATION (Cont'd)

Investors should note that dividend for the financial year ending 31 December 2003 might be waived if:

- (a) the results of the KNM Group differ slightly from that of its forecast; or
- (b) the payment of dividends would adversely affect the KNM Group's cashflows and operations.

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9. FINANCIAL INFORMATION (Cont'd)

9.5 Proforma Consolidated Balance Sheet As At 31 December 2002

The proforma consolidated balance sheets of KNM as at 31 December 2002 as set out below are provided for illustrative purpose only to show the effects of the transactions referred to in the notes:

	Audited As at 31 December 2002 RM'000	After Proforma I RM'000	After Proforma I & II RM'000
Property, plant and equipment	-	60,346	68,536
Investment in associated companies	-	-	-
Current assets			
Inventories	-	6,929	6,929
Trade and other receivables	-	74,556	74,556
Cash and cash equivalents	-	9,471	9,769
		90,956	91,254
Current liabilities			
Trade and other payables	(8)	(9,910)	(9,910)
Borrowings	-	(76,196)	(65,119)
Taxation	-	(2,238)	(2,238)
	(8)	(88,344)	(77,267)
Net current (liabilities)/assets	(8)	2,612	13,987
	(8)	62,958	82,523
Share capital	(1)	28,253	44,000
Share premium	-	5,933	9,751 ⁽²⁾
(Accumulated loss)/Retained Profit	(8)	16,706	16,706
(Deficit)/Surplus in shareholders' funds	(8)	50,892	70,457
Borrowings	-	7,902	7,902
Deferred taxation	-	4,164	4,164
	(8)	62,958	82,523
Net tangible assets per share (RM)	(4,000.00)	1.80	1.60

Notes:

Proforma I : *After Acquisitions of KNMPS and KNMI*

Proforma II : *After Rights Issue, Public Issue and Placement*

(1) *Issued and paid-up share capital of RM2.00 comprising 2 ordinary shares of RM1.00 each*

(2) *After deducting RM1,500,000 for listing expenses*

9. FINANCIAL INFORMATION (Cont'd)

Notes To The Proforma Consolidated Balance Sheet As At 31 December 2002:

1. The proforma consolidated balance sheets have been prepared for illustrative purposes only and are based on the audited financial statements of KNM and its subsidiary and associated companies as at 31 December 2002 and based on accounting policies consistent with those normally adopted in the preparation of the audited financial statements of the KNM Group save for the adoption of MASB 25, Income Taxes which will be effective for the financial statements beginning on or after 1 July 2002.
2. The proforma consolidated balance sheets incorporate, on a proforma basis, the following transactions as though they have been effected on 31 December 2002:

2.1 Proforma I

Proforma I incorporates the effects of the following:

- i) Payment of a special dividend amounting to RM2,880,000 net of tax by KNMPS (formerly known as KNM Steel Sdn. Bhd.) to the existing shareholders of KNMPS prior to the following proposed acquisition of KNMPS by KNM.
- ii) Acquisition of the entire issued and paid-up share capital of KNMPS by KNM, comprising 3,100,000 ordinary shares of RM1.00 each for a purchase consideration of RM34,186,350 to be satisfied by the issuance of 28,253,182 new ordinary shares of RM1.00 each in KNM at an issue price of RM1.21 per ordinary share.

The consideration of RM34,186,350 has been arrived at based on the audited consolidated net tangible assets of KNMPS and all its subsidiary and associated companies ("KNMPS Group") as at 31 December 1999 and after incorporating a revaluation surplus of landed properties amounting to RM6,540,906.
- iii) Acquisition of the entire issued and paid-up share capital of KNMI by KNM for a cash consideration of RM500,002 from KNMPS.

2.2 Proforma II

Proforma II incorporates the effects of Proforma I and the following:

- i) Proposed rights issue of 4,666,816 new ordinary shares of RM1.00 each in KNM at an issue price of RM1.00 per rights share to all existing shareholders of KNM on the basis of approximately 165 new ordinary shares of RM1.00 each for every existing 1,000 ordinary shares held in KNM.
- ii) Proposed placement of 4,400,000 new ordinary shares of RM1.00 each in KNM at an issue price of RM1.48 per ordinary share.
- iii) Proposed public issue of 6,680,000 new ordinary shares of RM1.00 each in KNM to the Malaysian public at an offer price of RM1.48 per ordinary share.

9. FINANCIAL INFORMATION (Cont'd)

- iv) The listing expenses estimated at RM1,500,000 will be set off against the share premium account.

The gross proceeds arising from the proposed rights issue, placement and public issue amounting to RM21,065,216 will be utilised in the following manner:

	RM'000
(i) Repayment of term loans	11,077
(ii) Capital expenditure	8,190
(iii) Working capital purposes	298
(iv) Listing expenses	1,500
	<u>21,065</u>

3. Share Capital and Share Premium

The movements in the share capital and share premium accounts are as follows:

	Share Capital RM'000	Share Premium RM'000
As at 31 December 2002	*	-
Shares issued pursuant to acquisition of KNMPS	28,253	5,933
	-----	-----
After Proforma I	28,253	5,933
Shares issued pursuant to:		
Rights issue	4,667	-
Placement	4,400	2,112
Public issue	6,680	3,206
Less: Estimated listing expenses	-	(1,500)
	-----	-----
After Proforma I and II	44,000	9,751
	=====	=====

* Issued and paid-up share capital of RM2.00 comprising 2 ordinary shares of RM1.00 each.

4. (Accumulated loss)/Retained profits

The movements in the (accumulated loss)/retained profits are as follows:

	RM'000
Accumulated loss at 31 December 2002	(8)
Negative goodwill arising from acquisition of KNMPS Group and recognised in the income statement	16,714

Proforma retained profits – Proforma I and II	16,706
	=====

9. FINANCIAL INFORMATION (Cont'd)

4. (Accumulated loss)/Retained profits (continued)

The negative goodwill is arrived as follows:

	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 2.1(i))	(2,880)
Less: Deferred tax effect on revaluation of properties of KNMPS Group arising from application of MASB 25	(1,904)
	<hr/> 50,900
Less: Purchase consideration	(34,186)
Negative goodwill	<hr/> 16,714
Recognised in income statement	<hr/> (16,714) <hr/>
	<hr/> - <hr/>

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9. FINANCIAL INFORMATION (Cont'd)

9.6 Reporting Accountants' Letter On The Proforma Consolidated Balance Sheet As At 31 December 2002

(Prepared for inclusion in this Prospectus)



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Chartered Accountants
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The Board of Directors
KNM Group Berhad
15 Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

16 June 2003

Dear Sirs

Reporting Accountants' Letter On The Proforma Consolidated Balance Sheets As At 31 December 2002

We have reviewed the presentation of the proforma consolidated balance sheets of KNM Group Berhad ("KNM"), as at 31 December 2002 for which the Directors are solely responsible, together with the notes thereon as set out in the Prospectus to be dated 27 June 2003 in connection with the listing of and quotation for the entire issued and fully paid-up share capital of KNM on the Second Board of the Kuala Lumpur Stock Exchange.

In our opinion,

- i) the proforma consolidated balance sheets together with the accompanying notes thereon have been prepared for illustrative purposes only, have been properly compiled on a basis consistent with the accounting policies normally adopted by the KNM Group save for the adoption of MASB 25, Income Taxes which will be effective for the financial statements beginning on or after 1 July 2002; and
- ii) the adjustments are appropriate for the purposes of the proforma consolidated balance sheets.

Yours faithfully

KPMG

Firm Number : AF 0758
Chartered Accountants

Chan Kam Chiew
Partner

Approval Number : 2055/06/04(J)



KPMG is a partner in a partnership and does not issue tax advice. KPMG is a member of KPMG network, a Swiss entity.

