

Circular

Reference No **GR-060606-62453**

Company Name : **KNM GROUP BERHAD**

Stock Name : KNM

Date Announced : 06/06/2006

Subject : CIRCULAR TO SHAREHOLDERS IN RELATION TO THE
PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND
PROPOSED NEW SHAREHOLDERS' MANDATE FOR
RECURRENT RELATED PARTY TRANSACTIONS OF A
REVENUE OR TRADING NATURE

Contents :



KNM-Circular.pdf

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your ordinary shares in KNM Group Berhad (**KNM** or **Company**), you should immediately hand this Circular together with the accompanying Form of Proxy in the Annual Report 2005, to the agent through whom the sale or transfer was contracted for onward transmission to the purchaser or transferee.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



KNM GROUP BERHAD

(Company No. 521348-H)

(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

The ordinary resolution in respect of the above Proposal shall be tabled at the 4th Annual General Meeting of the Company, which will be held at Parameswara Ballroom, Level 2, Palace Beach & Spa (Formerly known as Mines Beach Resort & Spa), Jalan Dulang, Off Jalan Balakong, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan on 28 June 2006 at 10.00 a.m. Notice of the 4th Annual General Meeting together with the Form of Proxy are enclosed in the 2005 Annual Report.

The Form of Proxy must be completed and lodged at the Registered Office of the Company at 15 Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, not less than 48 hours before the time stipulated for holding the meeting or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending the 4th Annual General Meeting and voting in person if you are able to do so.

This Circular is dated 6 June 2006

For the purpose of this Circular, the following definitions shall apply unless otherwise specified -

Act	Companies Act, 1965, as amended from time to time and any re-enactment thereof.
AGM	Annual General Meeting.
Annual Report	The Annual Report of the Company for the financial year ended 31 December 2005.
AUD	Australian Dollar
Audit Committee	The audit committee established and appointed by the Board pursuant to Chapter 15, Part C of the Listing Requirements.
Board	The Board of Directors of the Company.
Bursa Securities	Bursa Malaysia Securities Berhad.
Company	KNM Group Berhad.
Directors	Shall have the meaning given in Section 4 of the Act and for the purposes of the Proposed Shareholders' Mandate includes any person who is or was within the preceding 12 months of the date which the terms of the transaction were agreed upon, a Director of the Company and or its subsidiaries.
Group	The Company and its subsidiary and associate companies.
Hamilton	Hamilton Drive Property Pty Ltd, a company incorporated in Australia.
IM Bina	IM Bina Sdn Bhd.
IMRD	Inter Merger Realty & Development Sdn Bhd
IMSB	Inter Merger Sdn Bhd.
IMT	Inter Merger Trading Sdn Bhd.
KNM	Shall have the same meaning as Company.
KNM-DP	KNM-DP Fabricators Sdn Bhd.
Listing Requirements	Listing Requirements of Bursa Securities, as amended from time to time and any re-enactment thereof.
Major Shareholder	A person who has an interest or interests in 1 or more voting shares in a company and the nominal amount of that share, or the aggregate of the nominal amount of those shares is not less than 5% of the aggregate of the nominal amount of all the voting shares in that company. This includes any person who is or was within the preceding 12 months of the date on which the terms of the transaction were agreed upon, a major shareholder of the Company defined above or any company which is a subsidiary or associate of the Company. For the purpose of this definition, "interest in shares" shall have the meaning given in Section 6A of the Act.
NA	Net assets.
Persons Connected	Persons deemed to be connected with a Director or major shareholder pursuant to Section 122A of the Act.
Proposed Shareholders' Mandate	Proposed renewal of shareholders' mandate and proposed new shareholders' mandate pursuant to Paragraph 10.09 of the Listing Requirements for the Group to enter into RRPT as set out in Section 4 of this Circular.
Related Party	A Director, Major Shareholder or a person connected with such Director or Major Shareholder

RM and sen	Ringgit Malaysia and sen respectively.
RRPT	Recurrent related party transactions of a revenue or trading nature to be entered into by the Group which are necessary for the day-to-day operations of the Group and involve the interest, direct or indirect, of a Related Party, in the course of the Group's business.
Shares(s)	Ordinary shares of RM0.50 each in the Company.
Shareholders	Shareholders of the Company.
TKSB	Tegas Klasik Sdn Bhd.
Transacting Company	The Company or companies transacting with the Group for which the Proposed Shareholders' Mandate is sought.
Validity Period	<p>The period where authority is given by the Shareholders for the Proposed Shareholders' Mandate which is effective upon the passing of the Ordinary Resolution at the forthcoming AGM and may continue in force until -</p> <ul style="list-style-type: none"> (a) the conclusion of the next AGM of the Company, to be held in 2006; or (b) the expiration of the period within which the next AGM after that date is required by law to be held; or (c) revoked or varied by ordinary resolution passed by the Shareholders in general meeting, <p>whichever occurs first.</p>

Definitions of companies within the Group

DESB	- Duraton Engineering Sdn Bhd
FBM BV	- FBM Hudson Italiana BV, a company incorporated in the Netherlands
FBM SpA	- FBM Hudson Italiana SpA, a company incorporated in Italy
FBM ICOSS	- FBM ICOSS s.r.l, a company incorporated in Italy
FZCO	- FBM-KNM FZCO, a company incorporated in the United Arab Emirates
Hasil Wira	- Hasil Wira Sdn Bhd
HEA	- HEA Pty Ltd, a company incorporated in Australia
KMK	- KMK Power Sdn Bhd
KNM Cap	- KNM Capital Sdn Bhd
KNM Global	- KNM Global Ltd, a company incorporated in the British Virgin Islands
KNM OGPET	- KNM OGPET (East Coast) Sdn Bhd
KNMI	- KNM International Sdn Bhd
KNMMS	- KNM Management Services Sdn Bhd
KNMPB	- KNM Plant (Bintulu) Sdn Bhd
KNMPG	- KNM Plant (Gebeng) Sdn Bhd
KNMPM	- KNM Plant (Melaka) Sdn Bhd
KNMOC	- KNM Overseas (China) Sdn Bhd
KNMOG	- KNM Oil & Gas (B) Sdn Bhd, a company incorporated in Brunei
KNMPS	- KNM Process Systems Sdn Bhd
KNMSPEC	- KNM Special Process Equipment (Changshu) Co Ltd, a company incorporated in the People's Republic of China
KNM TS	- KNM Technical Services Sdn Bhd
KNM-DP	- KNM-DP Fabricators Sdn Bhd
KNM-DP HB	- KNM-DP Harta Bina Sdn Bhd
KPL	- KNM Pty Ltd, a company incorporated in Australia
MKE	- MKE Engineering Sdn Bhd
Pancaran Ribu	- Pancaran Ribu Sdn Bhd
PASB	- Perwira Awan Sdn Bhd
PT HEA	- PT Heat Exchangers Indonesia, a company incorporated in Indonesia
Sumber	- Sumber Amantech Sdn Bhd
WES	- W E Smith Engineering Pty Ltd, a company incorporated in Australia

CONTENTS

Letter from the Board to the Shareholders

Page

1	Introduction	6
2	The Listing Requirements	6
3	Proposed Shareholders' Mandate for the RRPT	7
4	Class and Nature of the RRPT	10
5	Benefits	13
6	Review Procedures for the RRPT	14
7	Financial Effects	15
8	Statement by the Audit Committee	15
9	Rationale	15
10	Conditions of the Proposal	15
11	Directors' and Major Shareholders' Interests	15
12	Directors' Recommendation	16
13	AGM	16
14	Further Information	16
	Appendices	
I	Further Information	17



KNM GROUP BERHAD

(Company No. 521348-H)

(Incorporated in Malaysia)

Registered Office -

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

6 June 2006

Directors -

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

To the Shareholders of KNM Group Berhad

Dear Sir/Madam,

Proposed renewal of shareholders' mandate and proposed new shareholders' mandate for recurrent related party transactions of a revenue or trading nature (Proposal)

1. Introduction

At the 3rd AGM of the Company held on 9 June 2005, the Shareholders approved the mandate on RRPT of the Group, which will expire at the conclusion of the 4th AGM of the Company, scheduled on 28 June 2006.

Accordingly, the Board had on 5 June 2006 announced its intention to seek Shareholders' approval for the Proposal at the forthcoming 4th AGM, as set out in Section 4 of this Circular.

This Circular serves to provide you with the relevant information on the Proposal, sets out your Board's recommendation and seeks your approval for the Proposal to be tabled at the forthcoming 4th AGM. The Notice of AGM and the Form of Proxy are enclosed in the Annual Report.

2. The Listing Requirements

Under Paragraph 10.09 of the Listing Requirements, the Company may seek a shareholders' mandate in respect of RRPT, subject to the following -

- (a) the transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public;
- (b) the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the breakdown of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year based on the following information -
 - (i) the type of RRPT made; and

- (ii) the names of the related parties involved in each type of the RRPT made and their relationship with the company; and
- (c) issuance of a circular to the Shareholders for the shareholders' mandate, which shall include information set out in the Listing Requirements;
- (d) in a meeting to obtain shareholders' mandate, the interested Directors, interested Major Shareholders and interested persons connected a Director or Major Shareholder and where it involves the interest of an interested person connected with a Director or Major Shareholder, such Director or Major Shareholder must not vote on the resolution approving the transactions. An interested Director or interested Major Shareholder must ensure that the Persons Connected abstain from voting on the resolution approving the transactions.

3. Proposed Shareholders' Mandate for recurrent related party transactions

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

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

Name	Date and place of incorporation	Effective equity interest %	Principal activities
Subsidiaries			
KNMPS	28.06.1990; Malaysia	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.
KNMI	10.05.2002; Malaysia	100	Provision of management, technical advisory, licence and trademark services to international related companies and related international investment.
KNM Cap	24.04.2006; Malaysia	100	Provision of funding and treasury services and all related functions.
KNMMS	19.05.2006; Malaysia	100	Provision of qualifying services under the overseas head quarters (OHQ) concept which includes management, treasury, financial advisory, technical support, marketing, business development and procurement and all related functions
Subsidiaries of KNMPS			
KNM OGPET	30.05.1994; Malaysia	100	Fabrication and maintenance of oil, gas and petrochemical process equipment, storage tanks, modular assemblies and structural assemblies for oil, gas and petrochemical industries.

Name	Date and place of incorporation	Effective equity interest %	Principal activities
KNMPB	16.05.2005 Malaysia	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.
KNMPG	10.07.1995 Malaysia	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.
KNMPM	10.03.2005; Malaysia	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.
KNMTS	24.03.2005; Malaysia	100	Provision of technical services and other associated services related to the oil, gas and petrochemical industries.
PASB	17.10.1992; Malaysia	100	Property investment.
DESB	14.11.2000; Malaysia	100	Provision of project manpower, engineering, non-destructive testing and technical consultancy services.
Sumber	17.06.2004; Malaysia	100	Provision of project management and technical services.
MKE	19.07.1991; Malaysia	100	Thermal insulation, mechanical piping contracts, fabrication and installation of steel tanks, vessels and structural steel works.
KPL	28.11.2000; Australia	51 + 1 share	Design, manufacture, sale and service of heat exchange systems.
FBM BV	23.03.2006; Netherlands	100%	Investment holding.
Subsidiaries of MKE			
Pancaran Ribu	08.06.1990; Malaysia	100	Contractor of the oil and gas industries and provision of technical services.
Hasil Wira	28.02.1992 Malaysia	100	Provision of technical drafting and detailed services for structural and mechanical engineering.
KMK	30.07.1994 Malaysia	100	Design, fabrication and installation of power plants and equipment and the provision of technical services.
Subsidiaries of KPL			
WES	08.03.2001 Australia	100	Thermal and mechanical design, drafting, manufacture of shell and tube heat exchangers, vessels, columns and feedwater heaters
HEA	28.05.2003 Australia	100	Manufacture of air cooled, shell and tube, and plate heat exchangers, vessels and columns

Name	Date and place of incorporation	Effective equity interest %	Principal activities
PT HEI	19.05.1994 Indonesia	100	Manufacture of air-cooled, shell and tube and plate and frame heat exchangers, vessels and columns
Subsidiary of FBM BV			
FBM SpA	30.05.1997 Italy	100	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 FBM SpA			
FBM ICOSS	08.08.1974 Italy	100	Design and construction of fully welded plate type heat exchangers, plates bundle exchangers and jacketed pressure vessels for different fields such as chemical, petrochemical, textile, pharmaceutical, food industry, aerospace and research industries.
Jointly controlled entity of FBM SpA			
FZCO	01.09.2004; United Arab Emirates	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 KNMI			
KNMOC	21.10.2002; Malaysia	100	Investment holding
KNM Global	10.06.2004; British Virgin Islands	100	Provision of marketing services.
KNMOG	10.05.2005; Brunei Darussalam	95	Provision of management, technical advisory, licence and trademark services to related companies and related investments abroad.
Jointly controlled entity of KNMI			
FZCO	01.09.2004; United Arab Emirates	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			
KNMSPEC	14.06.2002; China	100	Design, manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialized structural assemblies and module assembling for the oil, gas and petrochemical industries within the market in China

Name	Date and place of incorporation	Effective equity interest %	Principal activities
------	---------------------------------	-----------------------------	----------------------

Associate of KNMPS

KNM-DP	22.01.1992; Malaysia	28	Fabrication and maintenance of process equipment, storage tanks, modular assemblies and steel structural components for oil, gas and petrochemical industries
KNM-DP HB	24.09.1994; Malaysia	49	Dormant (intended principal activity is property investment)

The Board seeks your mandate to allow the Group, in its ordinary course of business, to enter into RRPT with the Related Parties set out in Section 4 below provided such transactions are in the opinion of your Directors (other than those deemed interested as disclosed in Section 4(a)) made at arm's length and on normal commercial terms of the Group and are on terms not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders. The review procedures for RRPT are set out in Section 6 of this Circular.

If approved at the AGM, the Proposed Shareholders' Mandate is subject to annual renewal. In this respect, any authority conferred by the Proposed Shareholders' Mandate shall only continue to be in force until -

- (a) the conclusion of the next AGM of the Company following the forthcoming AGM at which such Proposed Shareholders' Mandate was passed, at which time it will lapse, unless by a resolution passed at the said AGM, the mandate is again renewed; or
- (b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders of KNM in general meeting,

whichever is the earlier.

4. Class and nature of recurrent related party transactions

(a) Class of Related Parties

The Proposed Shareholders' Mandate shall apply to transactions as set out in Section 4(b) hereafter with the following Related Parties -

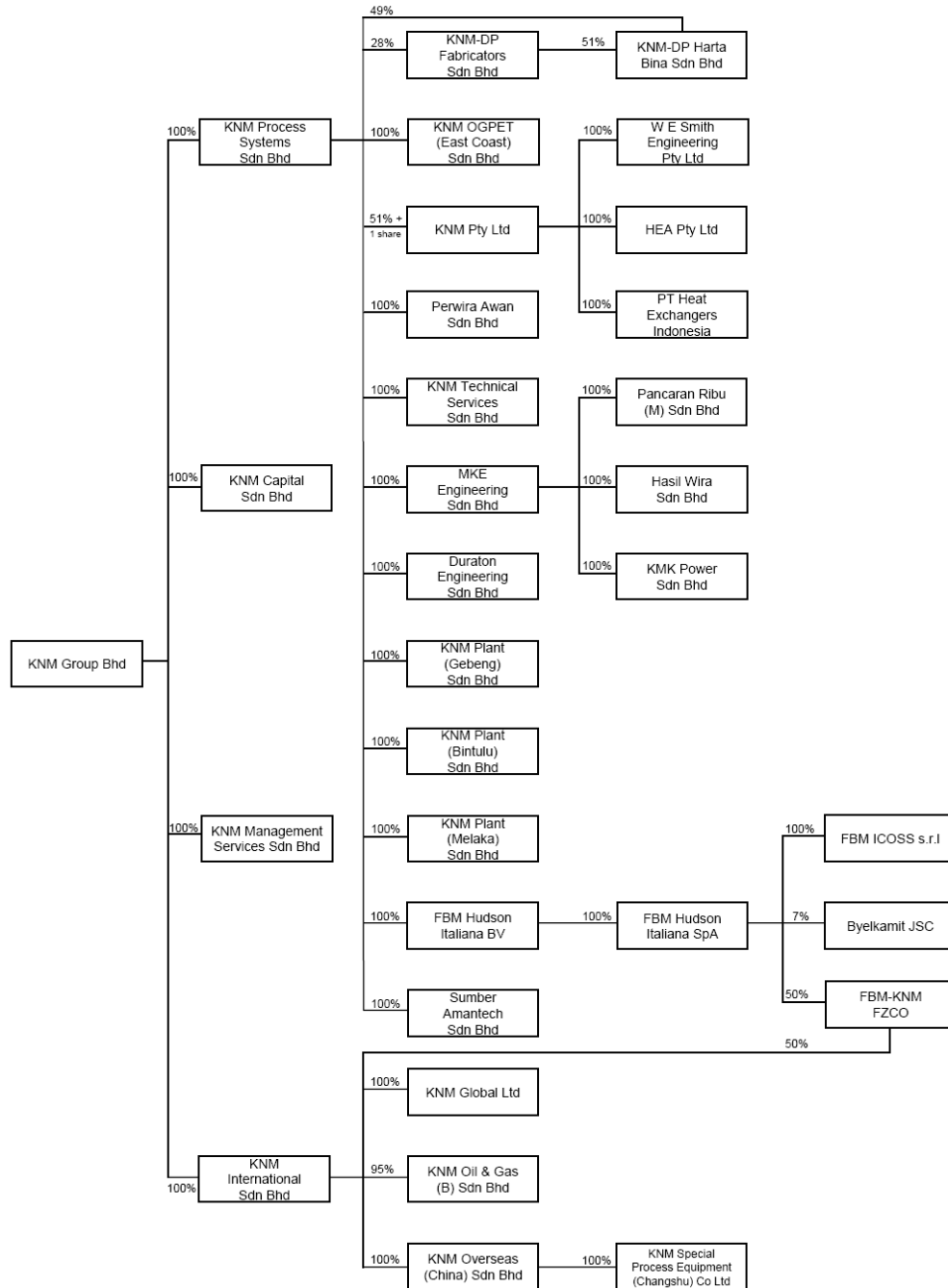
	Transacting Parties	Principal Activity	Date of incorporation / establishment	Issued and Paid-up capital (RM)	Period of business relationship with the Group
1	IMSB	Investment and provision of management and technical consultancy services	17-Jun-1987	RM3.0 mil	> than 10 yrs.
2	KNM-DP	Fabrication and maintenance of equipment and tanks	22-Jan-1992	528,570.00	> than 10 yrs.
3	IMT	General merchants and agent for supplying of equipment and accessories	03-Oct-1991	100,000.00	> than 10 yrs.
4	I M Bina	Undertaking of civil construction and engineering works	18-May-1990	RM1.0 mil	> than 10 yrs.
5.	Hamilton	Investment holding	31-Aug-2003	AUD100.00	< than 5 years

Notes -

1. *IMSB is a major shareholder of KNM.*
2. *KNM-DP is an indirect 28% associate company of KNM.*
3. *IMT is a wholly-owned subsidiary of IMSB.*
4. *IM Bina is a 80% subsidiary of IMSB.*
5. *Hamilton is a 60% subsidiary of the Rundell Family Trust, of which John Kenneth Rundell is a shareholder and director.*

The structure of the Group is set out below -

KNM GROUP BHD CORPORATE STRUCTURE as at 25 May 2006



The Interested Related Parties are as follows –

Interested Related Parties	Shareholding in KNM				Nature of Interest
	Direct		Indirect		
	No. of shares	%	No. of shares	%	
Ir Lee Swee Eng	1,200,000	0.79	46,948,000	30.92	By virtue of his major shareholding in IMSB, his deemed major shareholding in TKSB, his spouse, Gan Siew Liat's interests in IMSB, TKSB, KNM and KNM-DP and his directorships in IMSB and KNM.
Lee Hui Leong	0	-	3,991,273	2.63	By virtue of his major shareholding and directorship in TKSB, his deemed major shareholding in KNM and KNM-DP and his directorships in KNM, and KNM-DP.
Gan Siew Liat	180,000	0.12	46,948,000	30.92	By virtue of her major shareholding in IMSB, her deemed major shareholding in TKSB, her spouse, Ir Lee Swee Eng's interests in IMSB and TKSB, KNM and KNM-DP and her directorship in KNM.
Chew Fook Sin	180,000	0.12	46,948,000	30.92	By virtue of his major shareholding and directorship in TKSB, his sister-in-law, Gan Siew Liat's indirect interest in IMSB and his directorships in TKSB and KNM.
John Kenneth Rundell	0	-	0	-	By virtue of his major shareholding and directorship in Hamilton and his deemed major shareholding in KPL and his directorship in KPL.
IMSB	42,956,727	28.29	3,991,273	2.63	Major shareholder of KNM.
TKSB	3,991,273	2.63	-	-	By virtue of the major shareholdings of Lee Hui Leong and Chew Fook Sin in TKSB.

(b) Nature of the Recurrent Related Party Transactions

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

(1) Companies within the Group transacting with the Transacting Company	(2) Nature of transaction	(3) Transacting Company	(4) Interested Related Party	(5) Estimated value payable / (receivable) during the Validity Period of the Proposed Shareholders Mandate (new) (RM)	(6) Estimated value payable / (receivable) during the Validity Period of the Proposed Shareholders Mandate (renewal) (RM)
KNMPS	Office rental, related charges and administrative expenses.	IMSB - Landlord/provider of office space.	Ir Lee Swee Eng, Gan Siew Liat, Chew Fook Sin and IMSB.	-	3,500,000.00
KNMPM	Provision of fabrication works	KNM-DP - Subcontractor for fabrication works.	Ir Lee Swee Eng, Lee Hui Leong, Gan Siew Liat, Chew Fook Sin, IMSB and TKSB.	-	10,000,000.00

KNMPS	Purchases of production materials and fixed assets, which include but are not limited to bending, rolling and lathe machines, generators, electrode ovens and Time of Flight Diffraction equipment.	IMT - Supplier of production materials and fixed assets.	Ir Lee Swee Eng, Gan Siew Liat, Chew Fook Sin and IMSB.	-	1,000,000.00
KNMPS	Receipt of general construction and civil works.	IM Bina - General and civil contractor.	Ir Lee Swee Eng, Gan Siew Liat, Chew Fook Sin and IMSB.	-	40,000,000.00
KPL	Rental of land for manufacturing facility	Hamilton – Investment holding	John Kenneth Rundell	1,000,000.00	-

5. Benefits

The Group has a long-standing business relationship with the Transacting Companies. The services provided by and/or supplied to the Transacting Companies are in the view of your Directors (other than those deemed interested as disclosed in Section 4(a) and Audit Committee priced competitively and all transactions between Group and the Transacting Parties are carried out on an arm's length basis.

Although the Group also sources and/or supply similar services from/to third parties, the Group proposes to seek shareholders' mandate as the close co-operation with the Transacting Parties is in the view of your Directors (other than those deemed interested as disclosed in Section 4(a) expected to continue to be of benefit to the Group.

Some of the key benefits which are in view of your Directors (other than those deemed interested as disclosed in Section 4(a)) derived from the transactions are –

(a) Office rental, related charges and administrative expenses

The Group requires office premises to house its operations. As IMSB offers office space which are in view of your Directors (other than those deemed interested as disclosed in Section 4(a)) is in the right vicinity and of desired quality yet meeting cost-effective operating reasons, the Group entered into Tenancy Agreements dated 21 November 2000 with renewals to date with IMSB to rent at rates not exceeding RM3.50 per square feet for office space at Nos. 13 to 19, Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, which is a commercial development located in Seri Kembangan, Selangor. Rates formulation have taken into account factors like quality renovation, air-conditioning, furnishings and fittings. The rent is payable on a monthly basis.

In addition, IMRD and IMSB are respectively owner and main tenant of the office premises described above which provides utility, maintenance and related professional services, including telephone, fax lines, electricity and water whereas KNMPS is a sub-tenant of IMSB. Such charges represent purely disbursements that are re-chargeable periodically to the Group, calculated based on actual sale revenue achieved, with no profit mark-up on such charges. The re-charging to the Group is common and necessary to reflect the usage by the Group for its daily operations and business activity.

Based on the above, in view of your Directors (other than those deemed interested as disclosed in Section 4(a)), the rental rates and basis for charging are financially fair and reasonable.

(b) Purchases of production materials and fixed assets

IMT is a trading company that professionally sources and supplies production materials and fixed assets in the most competitive and cost effective manner for the Group. IMT adopts a focused and specialised methodology and process of sourcing competitively, including using commercial bid evaluation methods and capitalising on amongst others, economies of scale orders and centralising its procurement and distribution functions to enable it to lower purchase prices for the mutual benefit of both parties. A very minimal percentage profit mark-up is imposed in certain cases where appropriate on re-sale to the Group to

represent consideration for such services. This ensures the pricing to the Group is always low and competitive in comparison to the general market. However, in some case, where transactions are unable to meet competitive pricing objectives, no mark-up is imposed on such sale transactions with the Group. In addition, IMT has since been part of a focused, synergistic relationship with the Group. The Directors (other than those deemed interested as disclosed in Section 4(a)) have considered all factors above to ensure such transactions and prices are made at arm's range and hence it is financially fair and acceptable.

(c) Provision of general construction and civil works

IM Bina is a company involved in providing civil engineering work for the Group. IM Bina functions in a similar capacity and concept as IMT above, where focused and specialized delivery of professional services is emphasized. The pricing is arm-length based, having regards to stringent demand and tight schedule factors as required by Group. The profit margin is variable and low so that such transaction is favourable to Group on a symbiotic basis while still cost effective to Group. The Directors (other than those deemed interested as disclosed in Section 4(a)) have considered all factors above to ensure such transactions and prices are made at arm's range and hence it is financially fair and acceptable.

(d) Tenancy of land for manufacturing facility

The Group requires the premise to house its manufacturing operations at Coffs Harbour, New South Wales, Australia. As Hamilton offers manufacturing office space which are in view of your Directors (other than those deemed interested as disclosed in Section 4(a)) is in the right vicinity and of desired quality yet meeting cost-effective operating reasons, the Group entered into Tenancy Agreements dated 1 July 2002 ending 30 June 2007 at rates not AUD 0.33 per square meter for land and manufacturing facilities at Hamilton Drive, Boambee via Coffs Harbour, New South Wales 2450, Australia. Rates formulation has taken into account factors like quality renovation, air-conditioning, furnishings and fittings, utility, maintenance and related professional services, including telephone, fax lines, electricity and wate. The rent is payable on a monthly basis.

Based on the above, in view of your Directors (other than those deemed interested as disclosed in Section 4(a)), the rental rates and basis for charging are financially fair and reasonable

6. Review procedures

The following procedures have been formulated to ensure that RRPT are undertaken on an arm's length basis and on commercial terms consistent with the Group's usual business practices and policies, which are no more favourable to the Related Parties than those generally available to the public and are not detrimental to the minority Shareholders -

(a) Identification -

A list of RRPT and Related Parties will be circulated to the Audit Committee for review to ensure that the RRPT are undertaken on terms not more favourable to the Related Parties than those generally available to the public and are not detrimental to the minority Shareholders.

(b) Authorisation -

(i) If a member of the Audit Committee has an interest, direct or indirect in any RRPT, he shall abstain from any recommendation or decision by the Audit Committee in respect of such RRPT.

(ii) The Audit Committee shall also review conflict of interest situations that may arise within the Group as a result of the RRPT.

(c) Monitoring and reporting -

(i) A list shall be maintained by the Company to record all RRPT which are entered pursuant to the shareholders' mandate. All RRPT shall be reported to the Audit Committee on a quarterly basis together with the quarterly financial reports.

(ii) The annual internal audit plan shall incorporate in its corporate governance audit a review of all RRPT entered into pursuant to the shareholders' mandate to ensure that relevant approvals have been obtained and the review procedures in respect of such transactions are adhered to. Any divergence shall be reported to the Audit Committee.

(iii) The Audit Committee shall review the adequacy and appropriateness of the procedures as and when required.

- (iv) If the Audit Committee is of the opinion that the procedures are no longer sufficient to ensure that the RRPT are undertaken –
 - (aa) on an arm's length basis;
 - (bb) under normal commercial terms consistent with the Group's business practices and policies;
 - (cc) on terms not more favourable to the Related Parties than those generally available to the public; and
 - (dd) not to the detriment of the minority Shareholders,

the Audit Committee may request for additional procedures to be imposed on all RRPT. In such event, such procedures may be implemented without the approval of the Shareholders provided such procedures are more stringent than the existing procedures.

(d) Board -

- (i) The Audit Committee will report its review of all Recurrent Related Party Transactions to the Board.
- (ii) The procedures set out in paragraphs 6(a) to (c) is likewise undertaken by the Board.

7. Financial effects

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

8. Statement from the Audit Committee

The Audit Committee has reviewed the terms of the Proposed Shareholders' Mandate and is satisfied that the procedures for RRPT are sufficient to ensure that RRPT will be made at arm's length and in accordance with the Group's normal commercial terms, and on terms not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority Shareholders, and hence will not be prejudicial to the Shareholders or disadvantageous to the Group.

9. Rationale for the proposal

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

As such, the Board seeks shareholders' mandate pursuant to Paragraph 10.09 of the Listing Requirements for the RRPT described in Section 4(b) above to allow the Group to enter into such RRPT on an arm's length basis and on normal commercial terms and which are not prejudicial to the interests of the Company's shareholders. The Proposed Shareholders' Mandate would also reduce substantial administrative time, inconvenience and expenses of having to frequently convene a separate general meeting for approval of each transaction without compromising the corporate objectives of the Group or adversely affecting the business opportunities available to the Group.

10. Conditions of the Proposal

The Proposal is conditional upon Shareholders' approval at the forthcoming AGM.

11. Directors' and major shareholders' interests

Save as disclosed in Section 4(a), none of the other Directors and/or major shareholders or Persons Connected as defined in the Listing requirements have any interest, direct or indirect, in the Proposed Shareholders' Mandate. The Interested Directors, namely Ir Lee Swee Eng, Lee Hui Leong, Gan Siew Liat and Chew Fook Sin have abstained and will continue to abstain from Board deliberations of the Proposed Shareholders' Mandate in respect of the transactions in which they have an interest. The Interested Directors, Interested Major Shareholders and Persons Connected, namely Ir Lee Swee Eng, Lee Hui Leong, Gan Siew Liat and Chew Fook Sin, IMSB and TKSB shall abstain from voting in respect of their direct and indirect shareholdings on the resolutions, on the transactions which they have an interest, at the AGM

and ensure that Persons Connected shall likewise abstain from voting in respect of their direct and indirect shareholding on the resolution approving the Proposed Shareholders' Mandate in respect of the transactions which they have an interest.

12. Directors' recommendation

Having considered all aspects of the Proposal, your Directors (except for the Interested Directors who have abstained from giving any recommendation and opinion in respect of the same in respect of the transactions in which they have an interest) are of the opinion that the Proposal is fair, reasonable and in the best interest of the Company and its Shareholders and accordingly, they recommend that you vote in favour of the resolution on the Proposal to be tabled at the forthcoming AGM.

13. AGM

The 4th AGM of the Company, the notice of which is enclosed in the Annual Report will be held at Parameswara Ballroom, Level 2, Palace Beach & Spa (Formerly known as Mines Beach Resort & Spa), Jalan Dulang, Off Jalan Balakong, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan on 28 June 2006 at 10.00 a.m. for the purpose of considering and if thought fit, passing the resolutions to give effect to the Proposed Shareholders' Mandate contained herein, and if thought fit, passing with or without modifications the ordinary resolution on the Proposal.

You will find enclosed in the Annual Report, the Notice of the 4th AGM of the Company together with a Form of Proxy. If you are unable to attend and vote in person at the AGM and wish to appoint a person to attend and vote in your stead, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions set out therein and forward the same to the Registered Office of the Company at 15 Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, so as to arrive not less than 48 hours before the time set for holding the AGM. The completion and return of the Form of Proxy does not preclude you from attending and voting in person at the AGM if you are able to do so.

14. Further information

Shareholders are requested to refer to the attached appendices for further information.

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

YBhg Dato' Ab. Halim bin Mohyiddin
Independent Non-Executive Director

1. Responsibility statement

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

2. 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 2 years immediately preceding the date of this Circular -

- (i) The conditional share sale and shareholders' agreement dated 21 May 2004 (**Share Sale and Shareholders Agreement**) entered into between KNMI and FBM for the proposed acquisition by KNMI of 50% of the issued and paid-up share capital of 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 Euro10 million or equivalent RM45.6 million (based on the exchange rate of RM4.56 per Euro1.00 as at 21 May 2004) (**Acquisition**) and the proposed subscription of Euro2 million or equivalent to RM9.12 million (based on the exchange rate of RM4.56 per Euro1.00 each as at 21 May 2004) by KNMI and FBM respectively new ordinary shares of 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, 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, FZCO and the Escrow Agent dated 15 October 2004 for provision of escrow services by the Escrow Agent under the Share Sale and Shareholders Agreement;
- (vi) The conditional Sale and Purchase of Shares Agreement between KNMPS and Mohd Shahrom Bin Abd Rahim and Hanuar Bin Mohd Darus, being the shareholders of Sumber dated 29 November 2004 for the 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 dated 29 November 2004 for the 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;
- (viii) The Land Tenancy Agreement between Kuantan Port Konsortium Sdn Bhd (**KPK**) and KNM OGPET dated 8 February 2005 wherein KPK agreed to let and KNM Ogpel 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 per month for the duration of 3 years with an option to renew for another 3 years;

- (ix) The conditional share purchase agreement between KNMPS and Process Heat Transfer Pty Ltd, a company incorporated in Australia dated 30 December 2005 for the acquisition of 51% (plus 1 share) equity interest in KPL, comprising 2,193,001 fully paid-up ordinary shares and 1 partially paid-up ordinary share for a cash consideration of USD3,000,000 by KNMPS;
- (x) The conditional share sale agreement dated 31 December 2005 entered into between KNMI and Hamon & Cie International SA, a company incorporated in Belgium (**Hamon**) for the following:-
 - (a) Acquisition by KNMI of the entire equity interest in FBM SpA, comprising 228,000 fully paid-up ordinary shares of Euro1.00 each from Hamon for a cash consideration of Euro1,750,180; and
 - (b) Purchase by KNMI for the face value debt owing by FBM to its financial institution lenders amounting to Euro16,689,894 for a cash consideration of 30% of the said debt of Euro5,006,968.

(Collectively, the **FBM Acquisition**)
- (xi) The memorandum of agreement dated 15 February 2006 entered into between KNMPS and the management of FBM ("Management") in relation to the following:-
 - (a) to revise the structure of the FBM Acquisition by using a company incorporated in the Netherlands ("Newco") which will be owned by KNMPS as the acquirer ; and
 - (b) the establishment of a performance-based share option scheme for the Management.
- (xii) The share sale agreement dated 4 April 2006 between KNMPS and Riccardo Manisco representing the Management for the acquisition of 100% of the enlarged share capital of Newco from the Management; and
- (xiii) The letter of novation dated 4 April 2006 issued by KNMI to effect the novation of the conditional share sale agreement in respect of the FBM Acquisition by KNMI to Newco.
- (xiv) Four debt settlement agreements dated 11 April 2006 between FBM and KNMI with the following financial institutions, namely Bear Stearns Bank Plc, Banca d'Impresa, Banc of America Securities Limited, Banca Popolare Commercio e Industria SpA and Banca Regionale Europea SpA for the purchase of debts from these financial institutions which form an integral part of the acquisition of FBM. In accordance to the terms of the acquisition of FBM, the said debt settlement agreements have been novated by KNMI to FBM BV.

3. **Material litigation**

The Group are not involved in any material litigation, claims or arbitration, either as plaintiff, defendant, appellant or respondent, and the Directors do not know of any proceedings pending or threatened against the Group, or any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or the business of the Group.

4. **Documents available for inspection**

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

- 4.1 Memorandum and Articles of Association of KNM;
- 4.2 the audited accounts of the Group for the past 2 financial years ended 31 December 2004 and 31 December 2005; and
- 4.3 the material contracts set out in paragraph 2 of Appendix 1.

KNM GROUP BERHAD

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

Extract of resolution to be tabled at the 4th Annual General Meeting of the Company

Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue Nature (Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate)

"THAT approval be and is hereby given for the renewal of Shareholders' Mandate and new Shareholders' Mandate for the Company and its subsidiaries and associate companies (**KNM Group**) to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the KNM Group's day-to-day operations with the parties set out in Section 4(b) of the Circular to Shareholders of the Company dated 5 June 2006, subject to the following -

1. the transactions are carried out in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
2. disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the Shareholders' Mandate during the financial year based on the following information -
 - (a) the type of recurrent related party transactions made; and
 - (b) the names of the related parties involved in each type of recurrent related party transaction made and their relationships with the Company,

and any other arrangements and/or transactions as are incidental thereto;

AND THAT the authority conferred by this resolution will commence immediately upon the passing of this Ordinary Resolution until -

- (a) the conclusion of the next AGM of the Company following the forthcoming AGM at which such Proposed Shareholders' Mandate was passed, at which time it will lapse, unless by a resolution passed at the said AGM, the mandate is again renewed; or
- (b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders of the Company in a general meeting,

whichever is the earlier.

AND THAT the Directors of the Company be empowered to complete and do all such acts and things as they may be consider expedient or necessary to give effect to the Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate and transactions contemplated and/or authorised by this Ordinary Resolution.