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If you are in any doubt as to the course of action you should take, 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 Kannaltec Berhad, you should at once hand this Circular with the enclosed Form of Proxy to the purchaser or stockbroker, bank or agent through whom the sale or transfer was contracted for onward transmission to the subsequent purchaser or transferee.

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Kannaltec Berhad

(Company No. 635696-V)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

in relation to

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

Advised by



ALLIANCE MERCHANT BANK

Alliance Merchant Bank Berhad (21605-D)

The Form of Proxy for use at the Annual General Meeting should be completed and returned in accordance with the instructions therein as soon as possible. The Form of Proxy must be lodged at the Registered Office of the Company at 149A, 149B, 151B, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan not later than forty-eight (48) hours before the time set for holding the meeting or adjourned meeting. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

Last date and time for lodging Form of Proxy	: 24 September 2005 at 10.30 a.m.
Date and time of the Annual General Meeting	: 26 September 2005 at 10.30 a.m.
Venue for the Annual General Meeting	: Serunai Suite 1, 1 st Floor, East Wing, Hilton PJ, 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan

This Circular is dated 2 September 2005

DEFINITIONS

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

“Act”	:	Companies Act, 1965
“AGM”	:	Annual General Meeting
“Alliance”	:	Alliance Merchant Bank Berhad (21605-D)
“Board”	:	The Board of Directors of Kannaltec
“CDC”	:	CDC Control (M) Sdn Bhd (462353-X), a wholly-owned subsidiary company of KTSB
“Listing Requirements”	:	The Securities Exchange Listing Requirements for the MESDAQ Market, including any amendments thereto that may be made from time to time
“MESDAQ Market”	:	The MESDAQ Market of the Securities Exchange
“NTA”	:	Net tangible assets
“Kannaltec Group” or “Group”	:	Kannaltec and its subsidiary companies, collectively
“KSSB”	:	Kannal Softech Sdn Bhd (621860-W), a wholly-owned subsidiary company of Kannaltec
“KTSB”	:	Kannal Technologies Sdn Bhd (164878-P), a wholly-owned subsidiary company of Kannaltec
“Kannaltec” or “Company”	:	Kannaltec Berhad (635696-V)
“Mandate Period”	:	From the date of the forthcoming AGM on 26 September 2005 or any adjournment thereof, to the next AGM
“Proposed Shareholders’ Mandate”	:	The proposed shareholders’ mandate for the RRPT to be entered into during the validity period as set out in this Circular
“Proposed Shareholders’ Ratification and Mandate”	:	The Proposed Shareholders’ Ratification and the Proposed Shareholders’ Mandate, collectively
“Proposed Shareholders’ Ratification”	:	The proposed shareholders’ ratification for the RRPT which the Group had entered into since 4 May 2005, the date of its admission and listing on the MESDAQ Market, up to the date of the forthcoming AGM
“Ratification Period”	:	The period from 4 May 2005 up to the date of the forthcoming AGM or any adjournment thereof
“Related Party(ies)”	:	The Director(s) and the Substantial Shareholder(s) and/or person(s) connected with Director(s) or Substantial Shareholder(s)
“RM and sen”	:	Ringgit Malaysia and sen, respectively
“RRPT”	:	Recurrent related party transaction(s) of a revenue or trading nature which are necessary for the day-to-day operations and are in the ordinary course of business of the Group
“Securities Exchange”	:	Bursa Malaysia Securities Berhad (635998-W)

DEFINITIONS (Cont'd)

“Substantial Shareholder(s)” : A person who has an interest in one or more voting shares in a company and the nominal amount of that share or the aggregate of the nominal amount of that share, is not less than 5% of the aggregate of the nominal amounts of all the voting shares in the company. For the purpose of the definition, “interest in shares” shall have the meaning given in Section 6A of the Act and includes any person who is or was within the preceding twelve (12) months of the date on which the date of related party transactions were agreed upon, a Substantial Shareholder of Kannaltec (or any other company which is its subsidiary)

Any reference in this Circular to any enactments is a reference to that enactment as for the time being amended or re-enacted.

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Kannaltec Berhad

(Company No. 635696-V)
(Incorporated in Malaysia)

Registered Office:

149A, 149B, 151B
Persiaran Raja Muda Musa
42000 Port Klang
Selangor Darul Ehsan

2 September 2005

Directors:

Haji Khalid Izhar Bin Dato' Mahmood (Independent Non-Executive Chairman)
Datuk Mohan A/L A Kandasamy (Managing Director)
Sukunan A/L Kandasamy (Executive Director)
Sangar Nallappan (Executive Director)
Sa'edah Binti Jamek (Executive Director)
Haji Azhari Bin Mohamed (Independent Non-Executive Director)
Haji Hedzier Bin Haji Ahmad (Alternate to Sa'edah Binti Jamek)

To: The Shareholders of Kannaltec Berhad

Dear Sir/Madam

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

1. INTRODUCTION

On 25 August 2005, Alliance announced, on behalf of the Board, that the Company proposed to undertake the following:

- (i) ratification for the RRPT which the Group had entered into since 4 May 2005 the date of its admission and listing on the MESDAQ Market up to the date of the forthcoming AGM; and
- (ii) mandate for the RRPT to be entered into during the validity period as set out in Section 2.1.5 of this Circular.

The Company intends to seek shareholders' ratification and mandate at the forthcoming AGM to be convened pursuant to Rule 6.8 and Guidance Note 12 of the Listing Requirements.

The Securities Exchange vide its letter dated 24 August 2005 approved Kannaltec's application to seek its shareholders' ratification for the RRPT entered since the date of its admission and listing on the Securities Exchange up to the date of the forthcoming AGM.

The purpose of this Circular is to provide shareholders with information on the Proposed Shareholders' Ratification and Mandate, to set out the recommendation of your Board and to seek your approval for the resolutions pertaining to the Proposed Shareholders' Ratification and Mandate to be tabled at the forthcoming AGM of the Company. The notice convening the AGM together with the Form of Proxy are enclosed with the Company's Annual Report 2005.

SHAREHOLDERS ARE ADVISED TO READ THE CONTENTS OF THIS CIRCULAR CAREFULLY BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSED SHAREHOLDERS' RATIFICATION AND MANDATE.

2. DETAILS OF THE PROPOSED SHAREHOLDERS' RATIFICATION AND MANDATE

2.1 Proposed Shareholders' Ratification and Mandate

Pursuant to Rule 6.8 and Guidance Note 12 of the Listing Requirements, Kannaltec is required to seek shareholders' mandate to enter into RRPT subject to, inter-alia, the following:

- (i) the RRPT are in the ordinary course of business and are on terms not more favourable to the Related Parties than those generally available to the public;
- (ii) the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year; and
- (iii) in a meeting to obtain shareholders' mandate:
 - (a) the Related Parties who have interest, directly or indirectly, in the transaction; and
 - (b) where it involves the interest of:

- an associate of a party referred to under:

Sub-Rule 6.2 (a)

A substantial shareholder and includes any person who is or was within twelve (12) months preceding the date of the related party transaction, a substantial shareholder of the Listed Company; or

Sub-Rule 6.2 (b)

A director who is or was within twelve (12) months preceding the date of the related party transaction, a director of the Listed Company or any of its related companies or associated companies or any associated company of its holding company;

or

- person connected with a director of the listed company or its holding company as referred to under Rule 6.4 ("Relevant Director"),

the party referred to under Sub-Rule 6.2(a) or (b) or the Relevant Director, as the case may be,

must not vote on the resolution approving the transactions.

- (iv) where the Related Party is either a related party under Sub-Rule 6.2(a) or (b) or the Relevant Director which has interest, directly and indirectly, in the transaction (referred to as "interested related party"), the interested related party must ensure that its/his associates or persons connected, as the case may be, abstain from voting on the resolution approving the transactions.

The Kannaltec Group has entered into RRPT since the date of its admission and listing on the MESDAQ Market on 4 May 2005. The RRPT entered into since 4 May 2005, up to the date of the forthcoming AGM, are set out in Section 2.1.2(i).

It is envisaged that, in the normal course of the Group's businesses, transactions of a revenue or trading nature between Kannaltec Group and Related Parties, which are necessary for its day-to-day operations, are likely to occur.

The Board wishes to seek shareholders' mandate for RRPT to allow the Kannaltec Group, in their normal course of business, to continue to enter into the RRPT referred to in Section 2.1.2(ii) below, provided that these transactions are made at arms' length, on the Kannaltec Group's normal commercial terms and on terms not more favourable to Related Parties than those generally available to the public and are not detrimental to the Company and its minority shareholders.

2.1.1 Principal Activities of Kannaltec Group

Kannaltec is principally an investment holding company. The principal activities of Kannaltec's subsidiaries are set out in the table below:

Name of subsidiary company	Country of incorporation	% effective equity interest	Issued and paid-up capital (RM)	Principal activities
KTSB	Malaysia	100	25,000	Maritime carriage monitoring system operator
CDC ⁽¹⁾	Malaysia	100	25,000	Implementation of maritime carriage monitoring system for shipping lines
KSSB	Malaysia	100	200,000	Research and development of maritime carriage monitoring software applications

Note:

(1) *Wholly-owned subsidiary of KTSB*

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2.1.2 Class of Related Party for RRPT and Nature of Transactions

The Related Parties and the nature of the RRPT which the Group has entered into with them are detailed as follows:

(i) RRPT for which shareholders' ratification is required

The Kannaltec Group has entered into the following RRPT since the date of its admission to and listing on the MESDAQ Market on 4 May 2005, up to the date of the forthcoming AGM.

Transacting Company within Kannaltec Group	Transacting Party	Principal activity of Transacting Party	Nature of Transactions	Nature of Relationship	Estimated value during Ratification Period
KSSB	Astra-Link Sdn Bhd	General trading and management services	Monthly rental of Wisma Kannal bearing the address 111 (Level 4) Persiaran Pegaga, Bayu Perdana, 41200 Klang, Selangor Darul Ehsan to KSSB	Datuk Mohan A/L A Kandasamy, the Managing Director and Sa'edah Binti Jamek, an executive director of Kannaltec, are both substantial shareholders of Kannaltec. They are also directors and substantial shareholders of Astra-Link Sdn Bhd. Sangar Nallappan, an executive director of Kannaltec is a director of Astra-Link Sdn Bhd.	RM10,000
KTSB	Asia Pacific Marine Superintendents (M) Sdn Bhd	Cargo surveying and marine inspection services	Monthly rental of office space bearing the address L.2.8, Level 2, Bangunan Wisma Kontena, Kawasan Pelabuhan Johor, 81700 Pasir Gudang, Johor Darul Takzim to KTSB	Datuk Mohan A/L A Kandasamy, the Managing Director and a substantial shareholder of Kannaltec, is a director of Asia Pacific Marine Superintendents (M) Sdn Bhd.	RM3,550
KTSB	Asia Pacific Marine Superintendents (M) Sdn Bhd	Cargo surveying and marine inspection services	Monthly rental of office space bearing the address 7 (1 st Floor), Jalan Selat, Taman Selat, 12000 Butterworth, Penang to KTSB	Datuk Mohan A/L A Kandasamy, the Managing Director and a substantial shareholder of Kannaltec, is a director of Asia Pacific Marine Superintendents (M) Sdn Bhd.	RM2,125

Transacting Company within Kannaltec Group	Transacting Party	Principal activity of Transacting Party	Nature of Transactions	Nature of Relationship	Estimated value during Ratification Period
KTSB	Asia Pacific Marine Superintendents (M) Sdn Bhd	Cargo surveying and marine inspection services	Monthly rental of office space bearing the address 1.7, 1 st Floor, Lembaga Pelabuhan Kuantan, 25720 Kuantan, Pahang Darul Makmur to KTSB	Datuk Mohan A/L A Kandasamy, the Managing Director and a substantial shareholder of Kannaltec, is a director of Asia Pacific Marine Superintendents (M) Sdn Bhd.	RM1,430
KTSB	Astra-Link Sdn Bhd	General trading and management services	Monthly rental of Wisma Kannal bearing the address 111 (Level 1&2) Persiaran Perdana, Bayu Pegaga, 41200 Klang, Selangor Darul Ehsan to KTSB	Datuk Mohan A/L A Kandasamy, the Managing Director and Sa'edah Binti Jamek, an executive director of Kannaltec, are both substantial shareholders of Kannaltec. They are also directors and substantial shareholders of Astra-Link Sdn Bhd. Sangar Nallappan, an executive director of Kannaltec is a director of Astra-Link Sdn Bhd.	RM20,000

(ii) **RRPT for which shareholders' mandate is required**

It is anticipated that the Kannaltec Group will, in the normal course of business, enter into the following RRPT for which shareholders' mandate is required:

Transacting Company within Kannaltec Group	Transacting Party	Principal activity of Transacting Party	Nature of Transactions	Nature of Relationship	Estimated value during Proposed Mandate Period
KTSB	Astra-Link Sdn Bhd	General trading and management services	Monthly rental of Wisma Kannal bearing the address 111 (Level 1, 2, 3 & 4) Persiaran Pegaga, Bayu Perdana, 41200 Klang, Selangor Darul Ehsan to KTSB	Datuk Mohan A/L A Kandasamy, the Managing Director and Sa'edah Binti Jamek, an executive director of Kannaltec, are both substantial shareholders of Kannaltec. They are also directors and substantial shareholders of Astra-Link Sdn Bhd. Sangar Nallappan, an executive director of Kannaltec is a director of Astra-Link Sdn Bhd.	RM96,000

2.1.3 Methods/Procedures for Determination of Transaction Price

The rental paid by KTSB and KSSB was and shall continue to be determined based on the prevailing rental paid for office space in the locality of the premises where KTSB and KSSB have rented office space.

2.1.4 Review Procedures for RRPT

The following procedures have been established by the Kannaltec Group to ensure that RRPT are undertaken and on terms not more favourable to Related Parties than those generally available to the public and are not to the detrimental to the Company and its minority shareholders:

- (i) Any tender, quotation or contract received from or proposed to be entered with a Related Party will be reviewed by senior management who will ascertain if it is an approved RRPT. Such tender, quotation or contract will not be approved unless the terms offered to the Kannaltec Group are comparable with those offered by other unrelated parties for the same or substantially similar type of transactions. The transactions with a Related Party will only be entered into after taking into account the pricing, quality, deliverables, level of service and other related facts including competitors' prices of similar products and services in the open market;
- (ii) The Kannaltec Group has set out authority limits for accepting and awarding contracts. All transactions entered into pursuant to the Proposed Shareholders' Ratification and Mandate have been/will be (as the case may be) tabled to the Audit Committee for review on a quarterly basis. In its review of such transactions, the Audit Committee may, as it deems fit, request for additional information pertaining to the transactions from independent sources;
- (iii) Records will be maintained by the Company to capture all RRPT entered into pursuant to the Proposed Shareholders' Ratification and Mandate to ensure that relevant approvals have been obtained and review procedures in respect of such transactions are adhered to;
- (iv) The Audit Committee shall continuously review and ascertain that the guidelines and procedures established to monitor RRPT have been complied with and the review shall be done (as the case may be) every quarter together with the review of the quarterly results;
- (v) The Audit Committee shall continuously review the adequacy and appropriateness of the procedures, as and when required, with the authority to sub-delegate to individuals or committees within the Company as they deem appropriate; and
- (vi) Where a Director of the Company has an interest (whether direct or indirect) in a RRPT, such Director shall abstain from all deliberations and voting on that matter in the Board's deliberations of such RRPT. Where any member of the Audit Committee is interested in a RRPT, that member shall abstain from voting on any matter relating to any decisions to be taken by the Audit Committee with respect to such RRPT.

2.1.5 Validity Period of Proposed Shareholders' Mandate

The validity period for the Proposed Shareholders' Mandate shall commence immediately upon passing the ordinary resolution relating thereto at the forthcoming AGM and will continue in force until:

- (i) the conclusion of the next AGM of Kannaltec following the forthcoming AGM at which the Proposed Shareholders' Mandate is approved, at which time it will lapse, unless, by a resolution passed at the meeting, the authority is renewed; or
- (ii) the expiration of the period within which the next AGM of Kannaltec is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earliest.

2.1.6 Disclosure

Disclosure will be made in each annual report of the Company of the actual breakdown of the aggregate value of RRPT conducted as required under Paragraph 3.1.5 of Guidance Note 12 of the Listing Requirements pursuant to the Proposed Shareholders' Ratification and Mandate. Such disclosure shall, amongst others, contain the following information:

- (i) the type of the RRPT made; and
- (ii) the names of the Related Parties involved in each RRPT entered into and their relationships with Kannaltec.

2.1.7 Audit Committee's Statement

The Audit Committee of the Company has seen and reviewed the procedures mentioned in Section 2.1.4 above and is satisfied that the procedures for RRPT are adequate to ensure that the terms of such transactions are on those generally available to the public which are not more favourable to Related Parties than normal commercial terms and are not detrimental to the Company and its minority shareholders.

2.1.8 Benefits of RRPT

The Group benefits from the close working relationship with the Related Parties whereby the Company could enjoy a long-term tenancy assurance. In addition, Kannaltec has been operating in this premises for four (4) years. The relocation of its head office may disrupt business operations and cause inconvenience for its customers.

3. RATIONALE OF THE PROPOSED SHAREHOLDERS' RATIFICATION AND MANDATE

The Proposed Shareholders' Ratification serves to ratify RRPT entered into by the Kannaltec Group from 4 May 2005 up to the date of the forthcoming AGM at which shareholders' ratification is proposed to be obtained. Prior ratification for the RRPT entered since the listing of the Company has not been sought for as it would not be practical to have separate meetings to be held, to reduce expenses associated with convening such meeting to seek for the ratification.

The Proposed Shareholders' Mandate will enable the Kannaltec Group to continue to carry out RRPT necessary for the Group's day-to-day operations and will eliminate the need to announce and convene separate general meetings from time to time to seek shareholders' approval as and when potential recurrent transactions with Related Parties arise. This will substantially reduce expenses associated with the convening of such meetings on an ad-hoc basis, improve administrative efficiency and allow human resources and time to be channelled towards attaining other corporate objectives.

These RRPT are carried out at arm's length on the Group's normal commercial terms and are not prejudicial to the shareholders of Kannaltec and on terms not more favourable to the Related Parties than those generally available to the public and are not detrimental to Kannaltec and its minority shareholders.

4. EFFECTS OF THE PROPOSED SHAREHOLDERS' RATIFICATION AND MANDATE

The Proposed Shareholders' Ratification and Mandate will not have any effect on the issued and paid-up share capital of Kannaltec. The Proposed Shareholders' Ratification and Mandate will not have any material effects on earnings and net tangible assets ("NTA") of Kannaltec and the Group.

5. APPROVALS REQUIRED

The Proposed Shareholders' Ratification and Mandate require the approval of the shareholders of Kannaltec at the forthcoming AGM to be convened.

6. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Datuk Mohan A/L A Kandasamy and Sa'edah Binti Jamek, who are executive directors and substantial shareholders of Kannaltec, are interested in the Proposed Shareholders' Ratification and Mandate by virtue of their directorships and shareholdings in Astra-Link Sdn Bhd. Sangar Nallappan, an executive director of Kannaltec, is interested in the Proposed Shareholders' Ratification and Mandate by virtue of his directorship in Astra-Link Sdn Bhd.

Datuk Mohan A/L A Kandasamy is also interested in the Proposed Shareholders' Ratification and Mandate by virtue of his directorship in Asia Pacific Marine Superintendents (M) Sdn Bhd.

Sukunan A/L Kandasamy, a director of Kannaltec, is deemed interested in the Proposed Shareholders' Ratification and Mandate by virtue of being a brother of Datuk Mohan A/L A Kandasamy.

Accordingly, Datuk Mohan A/L A Kandasamy, Sa'edah Binti Jamek, Sangar Nallappan and Sukunan A/L Kandasamy have and will abstain and continue to abstain from all Board deliberations and voting on the respective resolutions for the Proposed Shareholders' Ratification and Mandate. They will also abstain and continue to abstain from voting in respect of their direct and indirect shareholdings on the respective resolutions for the Proposed Shareholders' Ratification and Mandate at the forthcoming AGM of the Company.

The associates and persons connected with Datuk Mohan A/L A Kandasamy, Sa'edah Binti Jamek, Sangar Nallappan and Sukunan A/L Kandasamy will also abstain from voting in respect of their direct and indirect shareholdings on the respective resolutions for the Proposed Shareholders' Ratification and Mandate at the forthcoming AGM of the Company.

Furthermore, Datuk Mohan A/L A Kandasamy, Sa'edah Binti Jamek, Sangar Nallappan and Sukunan A/L Kandasamy have given their undertaking that they shall ensure that their associates or persons connected with them, as the case may be, will abstain from voting in respect of their direct and indirect shareholdings in Kannaltec, if any, for the resolutions approving the Proposed Shareholders' Ratification and Mandate at the forthcoming AGM.

The direct and indirect shareholdings of Datuk Mohan A/L A Kandasamy, Sa'edah Binti Jamek, Sangar Nallappan and Sukunan A/L Kandasamy in the Company as at 15 August 2005 are as follows:

Name	< ----- Direct ----- >		< ----- Indirect ----- >	
	No. of ordinary shares of RM0.10 each held	% held	No. of ordinary shares of RM0.10 each held	% held
Datuk Mohan A/L A Kandasamy	1,209,798	1.00	40,730,314 ⁽¹⁾	33.66
Sa'edah Binti Jamek	-	-	30,648,663 ⁽²⁾	25.33
Sangar Nallappan	-	-	-	-
Sukunan A/L Kandasamy	1,209,546	1.00	40,730,566 ⁽³⁾	33.66

Notes:

- (1) Deemed interest by virtue of his shareholdings in Middle Entity (M) Sdn Bhd pursuant to Section 6A of the Act and Sukunan A/L Kandasamy and Annadurai A/L A. Kandasamy being his brothers.
- (2) Deemed interest by virtue of her shareholdings in Juta Imperium (M) Sdn Bhd pursuant to Section 6A of the Act.
- (3) Deemed interest by virtue of Datuk Mohan A/L A Kandasamy and Annadurai A/L A. Kandasamy being his brothers.

Save as disclosed above, none of the directors and/or substantial shareholders and/or persons connected to the Relevant Directors or associates or a related party under Sub-Rule 6.2(a) or (b) of the Listing Requirement has any interest, direct or indirect, in the Proposed Shareholders' Ratification and Mandate.

7. DIRECTORS' RECOMMENDATION

The Board (save for Datuk Mohan A/L A Kandasamy, Sa'edah Binti Jamek, Sangar Nallappan and Sukunan A/L Kandasamy who are deemed interested in the Proposed Shareholders' Ratification and Mandate) is of the opinion that the RRPT between Kannaltec and the Related Parties are in the best interests of Kannaltec. Accordingly, the Board (save for Datuk Mohan A/L A Kandasamy, Sa'edah Binti Jamek, Sangar Nallappan and Sukunan A/L Kandasamy) recommends that shareholders vote in favour of the ordinary resolutions relating to the Proposed Shareholders' Ratification and Mandate to be tabled at the forthcoming AGM.

8. AGM

The ordinary resolutions pertaining to the Proposed Shareholders' Ratification and Mandate are enclosed in the Company's Annual Report 2005. The AGM will be held at the Serunai Suite 1, 1st Floor, East Wing, Hilton PJ, 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Monday, 26 September 2005 at 10.30 a.m., for the purpose of considering and, if thought fit, passing the ordinary resolutions to give effect to the Proposed Shareholders' Ratification and Mandate.

If you are unable to attend and vote in person at the AGM, you should complete, sign and return the Form of Proxy enclosed in the Company's Annual Report 2005 in accordance with the instructions printed therein as soon as possible in any event must be deposited at the registered office of the Company at 149A, 149B, 151B, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan not later than forty-eight (48) hours before the time fixed for the AGM or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person should you subsequently decide to do so.

9. FURTHER INFORMATION

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

Yours faithfully,
for and on behalf of the Board of Directors of
KANNALTEC BERHAD

HAJI KHALID IZHAR BIN DATO' MAHMOOD
Independent Non-Executive Chairman

FURTHER INFORMATION**1. Responsibility Statement**

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

2. Consent

The written consents of Alliance to the inclusion in this Circular of its name and reference in the form and context in which it appears have been granted prior to the issue of this Circular and have not subsequently been withdrawn.

3. Material Contracts

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company or its subsidiary companies within the two (2) years immediately preceding the date of this Circular:

- (i) The Conditional Sale and Purchase Agreement dated 9 June 2004 between Kannaltec and Middle Entity (M) Sdn Bhd, Juta Imperium (M) Sdn Bhd, Tugu Meriah (M) Sdn Bhd, Juara Firus Sdn Bhd, Inno-Prominent Sdn Bhd, Datuk Mohan A/L A Kandasamy, Sukunan A/L Kandasamy, Annadurai A/L A. Kandasamy and Vigneswaran A/L K Naga Lingam, for the acquisition by Kannaltec of the entire issued and paid-up share capital comprising 25,000 ordinary shares of RM1.00 each in KTSB for a purchase consideration of RM1,246,294 satisfied by the issue of 12,462,940 new ordinary shares of RM0.10 each in Kannaltec credited as fully paid-up at par.
- (ii) A Conditional Sale and Purchase Agreement dated 9 June 2004 between Kannaltec and Middle Entity (M) Sdn Bhd, Juta Imperium (M) Sdn Bhd, Tugu Meriah (M) Sdn Bhd, Juara Firus Sdn Bhd, Inno-Prominent Sdn Bhd, Datuk Mohan A/L A Kandasamy, Sukunan A/L Kandasamy, Annadurai A/L A. Kandasamy and Vigneswaran A/L K Naga Lingam, for the acquisition by Kannaltec of the entire issued and paid-up share capital comprising 200,000 ordinary shares of RM1.00 each in KSSB for a purchase consideration of RM1,561,865 satisfied by the issue of 15,618,650 new ordinary shares of RM0.10 each in Kannaltec credited as fully paid-up at par.
- (iii) The Underwriting Agreement dated 9 March 2005 between Kannaltec and Alliance for the underwriting by Alliance of the 5,000,000 public issue shares reserved for application by the Malaysian public and eligible directors and employees of the Kannaltec Group for an underwriting commission of RM21,250 satisfied by way of cash.
- (iv) The Placement Agreement dated 9 March 2005 between Kannaltec and Alliance for the managing of the placement of 25,250,000 public issue shares for a placement fee of RM42,925 satisfied by way of cash.
- (v) The Sponsorship Agreement dated 9 March 2005 between Kannaltec and Alliance to appoint Alliance as the sponsor of the Company for a period of one (1) year after its listing on the Securities Exchange for an annual fee of RM50,000 satisfied by way of cash.
- (vi) The Tenancy Agreement dated 26 March 2005 between CPB Properties Sdn Bhd ("CPB") and KTSB for the rental by KTSB of office space at Suite A805-7, 8th Floor, West Wing, Wisma Consplant 2 for a period of three (3) years commencing from 1 March 2005, with a renewal period of a further three (3) years, for a rental deposit of RM24,882.00, a service charge deposit of RM11,310 and a rental and service charge of RM12,064 per month.

4. Material Litigation

As at the date of this Circular, Kannaltec and its subsidiary companies are not engaged in any material litigation, claims or arbitration either as plaintiff or defendant and the directors of Kannaltec do not have any knowledge of any proceedings pending or threatened against Kannaltec or its subsidiary companies or of any facts likely to give rise to any such proceedings which may materially and adversely affect the financial position or business of Kannaltec and its subsidiary companies.

5. Documents for Inspection

Copies of the following documents are available for inspection at the registered office of Kannaltec at 149A, 149B, 151B, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan during normal business hours from the date of this Circular up to and including the date of the forthcoming AGM:

- (i) The Memorandum and Articles of Association of Kannaltec;
- (ii) The audited financial statements of Kannaltec for the past two (2) financial years ended 31 March 2004 and 2005 and the unaudited financial statements for the three (3) months ended 30 June 2005;
- (iii) The letters of consent referred to in Section 2 above; and
- (iv) The material contracts referred to in Section 3 above.

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