

General Announcement

Reference No **OS-060216-63619**

Submitting Merchant Bank : AVENUE SECURITIES SDN BHD
Company Name : **KNM GROUP BERHAD**
Stock Name : KNM
Date Announced : 16/02/2006

Type : **Announcement**
Subject : **KNM GROUP BERHAD (“KNM” AND “COMPANY”)**

(I) PROPOSED ACQUISITION BY KNM PROCESS SYSTEMS SDN BHD (“KNMPS”), A WHOLY-OWNED SUBSIDIARY OF KNM (THROUGH A COMPANY TO BE INCORPORATED IN THE NETHERLANDS) OF THE ENTIRE EQUITY INTEREST IN FBM-HUDSON ITALIANA SPA, A COMPANY INCORPORATED IN ITALY (“FBM”) COMPRISING 228,000 FULLY PAID-UP ORDINARY SHARES OF EURO DOLLARS (“EURO”) 1.00 EACH FROM HAMON & CIE INTERNATIONAL SA, A COMPANY INCORPORATED IN BELGIUM (“FBM VENDOR”) FOR A CASH CONSIDERATION OF EURO1,750,180 (“PROPOSED FBM ACQUISITION”)

(II) PROPOSED ESTABLISHMENT OF A PERFORMANCE-BASED SHARE OPTION SCHEME FOR THE MANAGEMENT OF FBM (“PROPOSED MANAGEMENT OPTION SCHEME”)

(COLLECTIVELY, THE “PROPOSALS”)

Contents :

1. INTRODUCTION

On 3 January 2006, Avenue Securities Sdn Bhd on behalf of KNM announced that KNM International Sdn Bhd (“KNMI”), a wholly-owned subsidiary of KNM had on 31 December 2005 entered into a share sale agreement (“SSA”) with the FBM Vendor to acquire the entire equity interest in FBM comprising 228,000 fully paid-up ordinary shares of Euro1.00 each (“Sale Shares”) for a cash consideration of Euro1,750,180 (“Shares Consideration”). The Shares Consideration is equivalent to RM7,881,061 based on the exchange rate of RM4.503: Euro1.00.

Further to the abovesaid announcement, KNMPS and the management of FBM (“Management”) who is represented by Riccardo Manisco had on 15 February 2006 entered into a memorandum of agreement (“MOA”) to principally agree on the following:-

(a) the Management will incorporate a company under the laws of Netherlands (“Newco”) which will have an issued and paid-up share capital of Euro18,000 comprising 18,000 ordinary shares of Euro 1.00 each in Newco (“Newco Shares”).

(b) the Management will thereafter subscribe for 162,000 Newco Shares that will represent 90% of the enlarged share capital of Newco and will then enter into an agreement with KNMPS to sell 100% of the enlarged share capital of Newco to KNMPS (“Newco SSA”), for the consideration equivalent to the Total Consideration (as defined below) and shall be exclusively used to settle

the Total Consideration.

(c) upon completion of the above, the proposed acquisition of the entire equity interest in FBM by KNMI as envisaged under the SSA shall now be undertaken by KNMPS through Newco to be effected by the novation of the SSA by KNMI to Newco.

(d) the proposed establishment of a performance-based share option scheme for the Management involving the grant of option to the Management to acquire Newco Shares (“Option Shares”).

2. DETAILS OF THE PROPOSALS

2.1 Proposed FBM Acquisition

Resulting from the MOA, the proposed acquisition of the entire equity interest in FBM will now be undertaken by Newco, which will be a wholly-owned subsidiary of KNMPS (upon completion of the Newco SSA) instead of KNMI. The terms of the SSA shall remain unchanged. A summary of the changes to the Proposed FBM Acquisition resulting from the MOA is set out in **Table 1**.

2.2 Proposed Management Option Scheme

The Proposed Management Option Scheme shall involve the grant of option to the Management to acquire the Option Shares based on the principal terms set out in **Table 2**.

3. SALIENT TERMS OF THE MOA

The salient terms of the MOA include the following:-

(a) the persons comprising the Management shall be selected and agreed by KNMPS.

(b) The completion of the Newco SSA is conditional upon the completion of:-

(i) the SSA; and

(ii) the letter of novation to be given by KNMI to the FBM Vendor and duly confirmed by the FBM Vendor and Newco in respect of the novation by KNMI of the SSA and the debt settlement letter in respect of the Debt Purchase to Newco.

(c) An unconditional and irrevocable guarantee shall be issued by the Management to cover any loss/liability to be incurred by FBM (secured against gains in the sale of land belonging to FBM currently earmarked for sale, in excess of Euro10 million, net of tax, if any and by the Option Shares to be granted to Management pursuant to the Proposed Management Option Scheme and for the avoidance of doubt, with no personal guarantee involved) due to the following:

(I) Any additional liabilities incurred as at 30 June 2005 for: -

- (1) Trade payables is capped at Euro11,627,000;
 - (2) Accrued expenses is capped at Euro4,113,000;
 - (3) Social security accruals is capped at Euro5,331,000;
 - (4) Advances from customers is capped at Euro13,232,000;
 - (5) Taxation is capped at Euro7,973,000;and
- (6) Staff indemnity is capped at Euro5,214,000.

(II) Recoverability of assets as at 30 June 2005:-

- (1) Inventories written down shall be capped at Euro1,137,000 such that total recoverable inventories shall not be lower than Euro20,189,000; and
- (2) Trade receivables write down shall be capped at Euro874,000 such that trade receivables recoverable shall not be lower than Euro14,438,000.

Any savings for any matter set out in paragraphs (c)(I) and (c)(II) ("Liabilities") shall be offset against any greater liability for any Liabilities exceeding the respective amounts set out above.

(III) Litigation: The Management shall resolve the pending court dispute with the FBM Vendor such that FBM shall not incur any liability from being a party to any legal proceedings initiated by the Management against the FBM Vendor subject to payment of Euro75,000 that KNMI (or Newco upon novation of the SSA) shall cause FBM to pay to the Management on the date of completion of the SSA ("Completion Date") if not paid by FBM prior to the Completion Date.

(IV) The Management shall procure that FBM and the Hamon group of companies will mutually waive all their respective receivable and payables including all rights to the amount owing by FBM to the FBM Vendor, Hamon D'Hondt and the Hamon group of companies and the amount owing by the FBM Vendor, Hamon D'Hondt and the Hamon group of companies to FBM respectively, in its entirety (including future claims to profit or otherwise associated with the waiver made by the FBM Vendor on 24 December 2004) save and except for:-

- a total net receivable of Euro850,000 only to be paid by KNMI (or Newco upon novation of the SSA) on behalf of FBM in three (3) equal instalments, the first instalment to be payable on the Completion Date, the second instalment to be payable 1 month from the Completion Date and the third instalment to be payable 4 months from the Completion Date; and
- the claim of Euro650,000 by Hamon D'Hondt in respect of work done for Petrobras shall be

resolved mutually by Hamon D'Hondt, Petrobras and FBM within 12 months from the Completion Date such that FBM does not incur additional liability arising from the claim of Hamon D'Hondt, failing which the FBM Vendor shall undertake that all claims related to this matter will be waived by Hamon D'Hondt.

(V) There is no additional tax exposure due to non-deductibility of service/ management fee paid to the FBM Vendor. The Management shall provide a tax opinion acceptable to KNMPS in this respect.

(d) The Option Shares to be acquired by the Management under the Proposed Management Option Scheme shall be charged to KNMPS as security for the guarantee by the Management referred to in item (c) above.

4. RATIONALE OF THE MOA

The revised structure of the proposed acquisition of FBM which will use an intermediary company in the Netherlands to acquire the entire equity interest in FBM is expected to result in a more tax efficient corporate structure.

The Proposed Management Option Scheme is intended to retain and motivate certain existing key management personnel of FBM whose knowledge and technical know-how will contribute to the future success of FBM. As such, the Proposed Management Option Scheme is designed to only reward the Management when certain profit targets are met.

5. DOCUMENTS FOR INSPECTION

The MOA may be inspected at the registered office of KNM at 15, Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan during normal business hours from Mondays to Fridays (except public holidays) for a period of three (3) months from date of this announcement.

This announcement is dated 16 February 2006.



Table 1 - Summary of changes to the Proposed FBM Acquisition resulting from the MOA

Based on the SSA (as announced on 3 January 2006)

After taking into account the MOA

(i) The Proposed FBM Acquisition entails the acquisition by KNMI of the 228,000 Sales Shares representing the entire issued and paid-up share capital of FBM for the Shares Consideration which is equivalent to RM7,881,061 (based on the exchange rate of RM4.503:Euro1.00). As an integral part of the Proposed FBM Acquisition, KNMI shall also purchase the entire debts owing by FBM to the financial institutions ("Balance Lenders' Debt") based on a cash consideration of 30% of the Balance Lenders' Debt or Euro5,006,968 (equivalent to RM22,546,378) ("Debt Purchase"). Therefore, the total consideration for the Proposed FBM Acquisition (including the Debt Purchase) is Euro6,757,148 or equivalent to RM30,427,437 (based on the exchange rate of RM4.503:Euro1.00) ("Total Consideration").

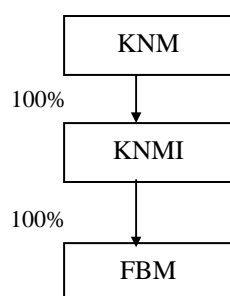
(i) The Proposed FBM Acquisition entails the acquisition by **KNMPS (through Newco)** of the 228,000 Sales Shares representing the entire issued and paid-up share capital of FBM for the Shares Consideration which is equivalent to RM7,881,061 (based on the exchange rate of RM4.503:Euro1.00). As an integral part of the Proposed FBM Acquisition, **Newco** shall also purchase the entire debts owing by FBM to the financial institutions ("Balance Lenders' Debt") based on a cash consideration of 30% of the Balance Lenders' Debt or Euro5,006,968 (equivalent to RM22,546,378) ("Debt Purchase"). Therefore, the total consideration for the Proposed FBM Acquisition (including the Debt Purchase) is Euro6,757,148 or equivalent to RM30,427,437 (based on the exchange rate of RM4.503:Euro1.00) ("Total Consideration").

Note: It is envisaged that KNMPS shall acquire the entire equity interest in Newco from the Management for a purchase consideration equivalent to the Total Consideration and the said consideration shall be used exclusively to settle the Total Consideration.

Based on the SSA (as announced on 3 January 2006)

After taking into account the MOA

(ii) Corporate Structure



(ii) Corporate Structure

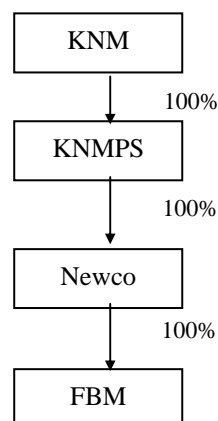


Table 2 – Principal terms of the Proposed Management Option Scheme

| Financial year ending 31 December | On completion of the Option Agreement[^] | 2006 | 2007 | 2008 |
|--|--|-------------|-------------|--|
| Achievement of audited profit after tax (“Profit Target”) (Euro ‘million) (excluding gains from sale of land of FBM) | - | 3.5 | 6.0 | 6.0 |
| Option granted to the Management to acquire the Option Shares equivalent to the % of the equity interest in Newco | 10%# | Nil | 5%* | 5%* |
| Option price payable by the Management in cash | Euro1.00 | Nil | Euro1.00 | KNMPS’ acquisition cost of the Options Shares plus 5% interest per annum |

Notes:

[^] The Option Agreement is defined as the definitive agreement to be entered into by the Management and KNMPS for the Proposed Management Option Scheme.

* The option for the Management to acquire 5% equity interest in Newco for each of the financial years ending 31 December 2007 and 2008 can only be exercised in the event the respective Profit Target is met.

- # *The Management shall be granted the option to acquire 10% equity interest in Newco from KNMPS at Euro1.00 on completion of the Option Agreement.*
1. *In the event that the Profit Target for the financial year ending 31 December 2006 is not met, KNMPS shall have the right to buy back 10% equity interest in Newco from the Management at Euro1.00.*
 2. *In the event that the Profit Target for the financial year ending 31 December 2007 is not met, KNMPS shall have the right to buy back 5% equity interest in Newco from the Management at Euro1.00.*
 3. *In the event that the Profit Target for the financial year ending 31 December 2008 is not met, KNMPS shall have the right to buy back 5% equity interest in Newco from the Management at Euro1.00.*