

General Announcement

Reference No **KG-060530-62059**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
Date Announced : **30/05/2006**

Type : **Announcement**
Subject : **PROPOSED JOINT VENTURE BETWEEN KNM AND SOFINTER SPA ("SOFINTER") IN RESPECT OF BUSINESS OF MAKING, SELLING AND INSTALLING INDUSTRIAL BOILERS AND HEAT RECOVERY STEAM GENERATORS ("BOILER BUSINESS") ("PROPOSED JOINT VENTURE")**

Contents :

1. INTRODUCTION

KNM has on 30 May 2006 entered into a Memorandum of Agreement ("MOA") with Sofinter setting out the commercial terms by which the parties propose to enter into joint ventures in respect of the Boiler Business which will involve the incorporation of a joint venture company in Malaysia ("MJVCO") and a joint venture company in China ("CJVCO").

2. DETAILS OF THE PROPOSED JOINT VENTURE

2.1 SALIENT TERMS OF THE PROPOSED JOINT VENTURE

(a) MJVCO

(1) The parties estimate that a paid up and issued share capital of USD1 million (equivalent to RM3.65 million based on an exchange rate of RM3.65:USD1.00) will be required (on the assumption all shop/offices required for the Boiler Business will be rented or leased).

(2) 51% equity interest of MJVCO will be directly held by a company controlled by KNM and 49% equity interest of MJVCO will be directly held by a company controlled by Sofinter.

(3) MJVCO is entitled to use and will be granted exclusive rights to use "Macchi" technology in Malaysia, Singapore, Indonesia and Brunei ("Asean 4") and Australia ("MJVCO Territories") owned by Sofinter based on a manufacturing license agreement on terms satisfactory to KNM and Sofinter.

(4) MJVCO shall also be allowed to quote and take orders on a non-exclusive basis for jobs from Thailand, Vietnam, Myanmar, Laos, Cambodia and Philippines ("Asean 6").

(5) In the event that MJVCO is awarded substantial orders from Asean 6, the MJVCO Territories will be extended by Sofinter to cover such countries.

(6) The Boiler Business products shall include -

i. Industrial package boilers, e.g. "Macchi" "Titan M" boiler model;

ii. Utility boilers for industrial use, e.g. "Macchi" "MVF" and "MRD" boiler model;

iii. Waste heat boilers, other than those using the technology of FBM Hudson Italian SpA ("FBM");

iv. Heat recovery steam generators; and

v. Marine propulsion boilers

(7) The board of directors of MJVCO will consist of two directors nominated by KNM and one director nominated by Sofinter.

(8) Sofinter will support MJVCO in technology (with the manufacturing license agreement) and in management.

(9) KNM will support MJVCO in managing and manufacturing work as well as support with local business environment, permits, licenses, legal affairs, bureaucracy, recruitment of human resources, etc.

(10) MJVCO will be entitled to use "Macchi" trademark owned by Sofinter in accordance with the manufacturing license agreement.

(b) CJVCO

(1) The parties estimate that a paid up and issued share capital of between USD1.0 to USD1.5 million (equivalent to between RM3.65 million to RM5.48 million based on an exchange rate of RM3.65:USD1.00) will be required (on the assumption all shop/offices required for the Boiler Business will be rented or leased) or between USD3.0 to USD3.5 million (equivalent to between RM10.95 million to RM12.78 million based on an exchange rate of RM3.65:USD1.00) will be required (on the assumption all shop/offices required for the Boiler Business will be purchased and the land rights will be granted to the CJVCO).

(2) 51% equity interest of CJVCO will be held by a company controlled by Sofinter and 49% equity interest of CJVCO will be held by a company controlled by KNM.

(3) CJVCO is entitled to use and will be granted exclusive rights to use "Macchi" technology owned by Sofinter in China ("CJVCO Territory") based on a manufacturing license agreement on terms satisfactory to KNM and Sofinter.

(4) The Boiler Business products shall include:

- i. Industrial package boilers, e.g. "Macchi" "Titan M" boiler model;
- ii. Utility boilers for industrial use, e.g. "Macchi" "MVF" and "MRD" boiler model;
- iii. Waste heat boilers, other than those using FBM's technology;
- iv. Heat recovery steam generators; and
- v. Marine propulsion boilers

(5) The board of directors of CJVCO will consist of one director nominated by KNM and two directors nominated by Sofinter.

(6) Sofinter will support CJVCO in technology (with the manufacturing license agreement) and in management.

(7) KNM will support CJVCO in managing and manufacturing work as well as support with local business environment, permits, licenses, legal affairs, bureaucracy, recruitment of human resources, etc.

(8) CJVCO will be entitled to use "Macchi" trademark owned by Sofinter in accordance with the manufacturing license agreement.

2.2 INFORMATION ON SOFINTER

Sofinter was incorporated in Italy on 20 November 1986 under the laws of Italy as Sagittario SRL, a company limited by guarantee and changed its name to Sofinter SRL on 31 December 2005 before converting to Sofinter SpA, a company limited by shares on 31 January 2006. As at the date of the MOA, the authorised share capital of Sofinter is Euro61,000,000 comprising 61,000,000 ordinary shares of Euro1.00 each, of which Euro61,000,000 comprising 61,000,000 ordinary shares of Euro1.00 each have been

issued and fully paid up.

The principal activities of Sofinter are making, selling and installing amongst others, power generation plants, desalination plants, waste and biomass to energy incineration boilers, boilers and heat recovery steam generators for industrial, oil, gas, petrochemicals and power production plants. "Macchi" boiler manufacturer was founded in 1959 and is a division of Sofinter and carries on the business of making, selling and installing industrial package boilers, utility boilers for industrial use, waste heat boilers (other than those using FBM's technology), heat recovery steam generators and marine propulsion boilers.

3. RATIONALE OF THE PROPOSED JOINT VENTURE

The Proposed Joint Venture with Sofinter will enable KNM to expand its product range to include industrial package boilers, utility boilers for industrial use, waste heat boilers (other than those using FBM's technology), heat recovery steam generators and marine propulsion boilers under the "Macchi" trademark and technology into the MJVCO Territories and CJVCO Territory. The Proposed Joint Venture will allow the Sofinter Group to mark its presence in the fast growing market of Asean, China and Australia, and complements the Sofinter Group's current business.

4. EFFECTS OF THE PROPOSED JOINT VENTURE

4.1 Share Capital and Substantial Shareholdings

The Proposed Joint Venture does not have any impact on the issued and paid-up share capital and the substantial shareholdings of KNM as the Proposed Joint Venture does not involve any issuance of securities by KNM.

4.2 Earnings

The Proposed Joint Venture is not expected to have material impact on the earnings of the KNM Group for the year ending 31 December 2006. However, the Proposed Joint Venture is expected to contribute positively to the earnings of the KNM Group in the future financial years.

4.3 Net Assets

The Proposed Joint Venture does not have any impact on the Net Assets of KNM.

5. CONDITIONS OF THE MOA

The MOA is not intended to, and shall not, create any binding legal obligations and the agreements set out in the MOA are subject to

amongst others the receipt of the relevant approvals from the relevant authorities, and the execution of definitive joint venture agreements and other relevant agreements satisfactory to both KNM and Sofinter.

6. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

None of the Directors and/or substantial shareholders and persons connected to the Directors and substantial shareholders has any interest, direct or indirect, in the Proposed Joint Venture.

7. 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 30 May 2006.