

General Announcement

Reference No **OS-060705-66510**

Submitting Merchant Bank : AVENUE SECURITIES SDN BHD
Company Name : **KNM GROUP BERHAD**
Stock Name : KNM
Date Announced : 05/07/2006

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

PROPOSED ACQUISITION BY KNM OF 90% EQUITY INTEREST IN VIRGO PULSE SDN BHD (“VPSB”) COMPRISING 9,000 ORDINARY SHARES OF RM1.00 EACH (“PROPOSED ACQUISITION”)

Contents :

1. INTRODUCTION

On behalf of the Board of Directors of KNM, Avenue Securities Sdn Bhd wishes to announce that the Company had on 5 July 2006 entered into a memorandum of agreement (“MOA”) with Tang Vee Mun to register the intention of both KNM and the existing shareholders of VPSB namely, Dato’ Ghazali bin Mat Ariff and Tang Vee Mun (collectively, the “Vendors”) to work together to develop the business of VPSB and its subsidiaries (“VPSB Group”) via a strategic partnership. The strategic partnership shall be initiated through the Proposed Acquisition.

2. DETAILS OF THE PROPOSED ACQUISITION

KNM proposes to acquire 90% equity interest in VPSB comprising 9,000 ordinary shares of RM1.00 each (“Sale Shares”) from the Vendors for a cash consideration of RM27,500,000. The Proposed Acquisition is subject to:-

(a) the completion of due diligence to be carried out by KNM and its advisers, with results satisfactory to KNM at its sole discretion; and

(b) the signing of a definitive shares sale agreement for the Proposed Acquisition (“SSA”) by KNM and the Vendors within thirty (30) days from the date of the MOA (or such extension of time to be agreed by both parties).

The purchase consideration of RM27,500,000 was arrived at on a willing-buyer willing-seller basis after taking into consideration the following:-

(i) the potential future earnings of the VPSB Group;

(ii) the historical performance of the VPSB Group; and

(iii) the current financial position of the VPSB Group.

The purchase consideration of RM27,500,000 is expected to be funded through a combination of internally generated funds and borrowings.

The Proposed Acquisition is not expected to give rise to any additional financial commitment to put the VPSB Group on-stream. The detailed terms and conditions of the Proposed Acquisition will be finalised and announced upon the execution of the SSA.

2.1 Information on VPSB

VPSB was incorporated in Malaysia on 21 November 2003 as a private limited company under the Companies Act, 1965. As at the date of this announcement, VPSB has an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 10,000 ordinary shares of RM1.00 each has been issued and fully paid-up.

The structure of the VPSB Group is shown in **Table 1** below. The principal activity of VPSB is investment holding whilst the principal activities of its subsidiaries are as shown in **Table 2** below. As at the date of this announcement, VPSB does not have any associated companies.

2.2 Salient Terms of the MOA

The salient terms of the MOA, include the following:-

(a) KNM shall acquire 9,000 Sale Shares free from all liens, pledges, charges and other encumbrances whatsoever and with all rights now or hereafter attaching thereto or accruing thereon from the date of completion of the Proposed Acquisition including without limitation, all bonuses, rights, dividends and other distributions declared, paid or made thereof.

(b) The cash consideration for the Proposed Acquisition of RM27,500,000 shall be paid in the following manner:-

- (i) RM4,050,000 shall be paid on the signing of the SSA (subject to delivery of all relevant completion documents to KNM); and
- (ii) The balance consideration of RM23,450,000 shall be paid within thirty (30) days from the unconditional date of the SSA.

(c) The SSA to be executed shall contain the following conditions precedent:-

- (i) The approval from the shareholders of KNM (if required); and
- (ii) The approvals of any relevant government authorities in Malaysia (if required).

(d) KNM and its advisers shall be granted free access to information with regards to the VPSB Group to undertake financial, legal and operational due diligence on VPSB and its officers and the Vendors shall assist KNM and/or its advisers in respect of the due diligence to be undertaken. The due diligence shall be completed within twenty-one (21) days from the date of the MOA (or such other period as agreed upon by the

parties).

(e) The Vendors shall be entitled to have one (1) board representation in VPSB or any of its subsidiaries provided the Vendors is still holding the remaining 10% equity interest in VPSB.

2.3 Liabilities to be Assumed

KNM is not expected to assume any liabilities of VPSB under the Proposed Acquisition. The existing liabilities of VPSB will be settled by VPSB in the normal course of business.

Further details of the VPSB Group (including the financial data and original dates/ cost of investment) will be announced upon the execution of the SSA for the Proposed Acquisition.

3. RATIONALE FOR THE PROPOSED ACQUISITION

The Proposed Acquisition will allow the KNM group of companies (“KNM Group”) to expand into new industrial sectors such as power, palm oil and biomass. The combination of the respective technical and managerial expertise of the KNM Group and the VPSB Group enables the KNM Group to have a wider range of products, including industrial boilers and energy systems in industry sectors other than oil, gas, petrochemicals and minerals processing. The Proposed Acquisition will also facilitate a strategic partnership between KNM and the Vendors to further develop and expand the VPSB Group’s core business of manufacturing industrial boilers using its own “Vickers Hoskins” brand name.

4. EFFECTS OF THE PROPOSED ACQUISITION

The Proposed Acquisition will not have any effect on the share capital and substantial shareholdings of KNM as the Proposed Acquisition will not involve any issuance of securities by KNM. The proforma effects of the Proposed Acquisition on the net assets, gearing and dividends of KNM can only be determined upon finalisation of the terms of the Proposed Acquisition. A detailed announcement will be made in due course upon finalisation of the aforesaid terms.

The Proposed Acquisition is expected to contribute positively to the future earnings of the KNM Group.

5. CONDITIONS OF THE PROPOSED ACQUISITION

The Proposed Acquisition is subject to and conditional upon the approvals from the following:-

- (i) the Foreign Investment Committee and/or Ministry of International Trade and Industry;
- (ii) the shareholders of KNM; and
- (iii) other relevant authorities (if necessary).

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 Acquisition.

7. OTHER MATTERS

An announcement in compliance with the relevant provisions of Bursa Malaysia Securities Listing Requirements will be made in due course upon the finalisation of the terms of the Proposed Acquisition and the execution of the SSA.

8. 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 5 July 2006.



Table 1.doc

Table 1 –Structure of the VPSB Group

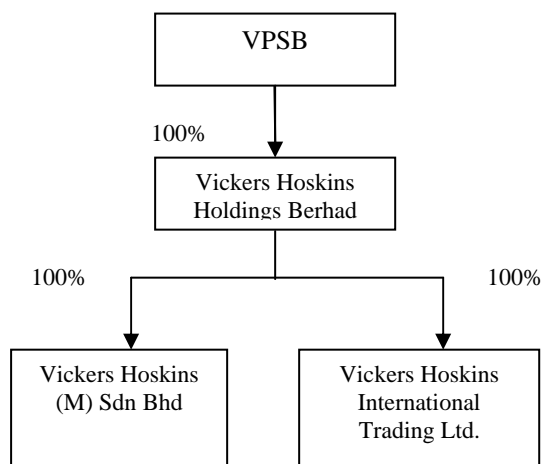


Table 2 – Subsidiaries of VPSB

Name	Date and place of incorporation	Effective equity interest %	Principal activities
Subsidiary of VPSB			
Vickers Hoskins Holdings Berhad (“VHHB”)	21.11.2003; Malaysia	100	Investment holding, provision of management and advisory services and trading.
Subsidiaries of VHHB			
Vickers Hoskins (M) Sdn Bhd	15.08.1978; Malaysia	100	Designing, manufacturing, marketing, selling, trading, installing and commissioning of energy systems (namely industrial boiler systems fired by oil, gas or renewable biomass fuel), energy/heat recovery systems, air pollution control systems, ancillary equipment for the various systems as well as the provision of related after sales and consultancy services.
Vickers Hoskins International Trading Ltd.	29.11.2002; Hong Kong	100	Marketing, sale, trading, installation and commissioning of energy systems (namely industrial boiler systems fired by oil, gas or renewable biomass fuel), energy/heat recovery systems, air pollution control systems, ancillary equipment for the various systems as well as the provision of related after sales and consultancy services.