

General Announcement

Reference No **KG-071212-61405**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
Date Announced : **12/12/2007**

Type : **Announcement**
Subject : **KNM Group Berhad (KNM)**
Proposed acquisition by KNM International Sdn Bhd (KNMI) (a wholly owned subsidiary of KNM) of 80% equity interest in HZM Companies (HZM Companies) for a total consideration of Brazilian Real 27 million. (Proposed Acquisition)

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1. Introduction

The Board of Directors of KNM wishes to announce that KNM International Sdn Bhd (**KNMI** or **Purchaser**) had on 12 December 2007 entered into a memorandum of agreement (**MOA**) with Mr. Joao Ronaldo Periera, Mr. Maria Vieira de Novaes and Mr. Rozimiro Ferreira Lopes (collectively, **Vendors**) to register KNMI's intention to acquire 80% equity interest in HZM Companies for a consideration up to Brazilian Real 27.0 million (**Consideration**).

2. Details of the Proposed Acquisition

KNMI proposes to acquire the entire equity interest in HZM Companies from the Vendors for the Consideration.

The Proposed Acquisition is subject to –

- (a) The Purchaser and the Vendors enter into a definitive Sale and Purchase Agreement;
- (b) Completion of legal and financial due diligence on HZM Companies to the satisfaction of the Purchaser;
- (c) Completion of fixed assets valuation of HZM Companies to be carried out by an independent professional valuer acceptable to the Purchaser's advisors;
- (d) Shareholders' (if necessary) and Board of Directors' approval of the Purchaser;
- (e) Regulatory approvals in Malaysia, Brazil and elsewhere (if required), including approvals of other relevant authorities, where applicable.

The Consideration is expected to be funded through a combination of internally generated funds and borrowings and was arrived at on a willing-buyer willing-seller basis after taking into consideration -

- (i) the potential future earnings of HZM Companies;
- (ii) the historical performance of HZM Companies; and
- (iii) the current financial position of HZM Companies.

The Proposed Acquisition is not expected to give rise to any additional financial commitment to put HZM Companies on-stream. The detailed terms and conditions of the Proposed Acquisition will be finalised and announced upon the execution of the Sale and Purchase Agreement.

2.1 Information on HZM Companies

HZM Companies comprise of:

- a) HZM Industrial Ltda
- b) HZM Servicos Ltda; and
- c) HZM S.A Ltda

The HZM Industrial Ltda was founded in 1976 by Hitachi Zosen of Japan to fabricate industrial equipment in Brazil. In 1990, there was a Management Buy-out by the current Vendors. In 1991, HZM Servicos Ltda was established to provide maintenance services for industrial plant for CST, CVRD and etc. HZM SA was established in 2006 to focus in the manufacturing of large process equipment.

Currently the HZM Companies operate at 2 fabrication plants:

- (i) In the City of Serra, State of Esperito Santo with a covered area of 8,600 sqm and land size of 26,000 sqm; and
- (ii) In the City of Sorretema, State of Esperito Santo with a covered area of 10,000 sqm and land size of 190,000 sqm

2.2 Salient terms of the MOA

The salient terms of the MOA include the following -

(a) KNMI shall acquire the 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 completion date of the Proposed Acquisition, including without limitation, all bonuses, rights, dividends and other distributions declared, paid or made thereof.

(b) The bases of the Consideration are:

(i) The HZM Companies shall achieve Consolidated Net Profit After Tax (CNPAT) of not less than Brazilian Real 7.0 million for financial year 2007;

(ii) The HZM Companies shall have fixed assets of not less than Brazilian Real 30.0 million (allowing a 10% fluctuation) as at 31 December 2007;

(iii) The estimated order-book as at 31 December 2007 of HZM Companies shall not less than Brazilian Real 80.0 million and having a tender-book that could eventually give the HZM Companies a total estimated consolidated revenue for financial year 2008 of Brazilian Real 120.0 million; and

(iv) The HZM Companies shall have zero debt except for hire purchase, financing and leasing of machinery.

(c) The Consideration shall be paid in the following manner:

(i) Brazilian Real 20.25 million shall be paid upon completion of the Proposed Acquisition; and

(ii) The remaining Brazilian Real 6.75 million shall be paid upon HZM Companies achieved the Consolidated Net Profit After Tax (CNPAT) for financial year 2007 of not less than Brazilian Real 7.0 million;

2.3 Due diligence

KNMI and its advisers shall be granted reasonable access to information on HZM Companies to undertake financial and legal due diligence on HZM Companies and its officers, and the Vendors shall assist KNMI and/or its advisers in respect of the due diligence to be undertaken.

2.4 Liabilities to be assumed

KNMI is not expected to assume any liabilities of HZM Companies under the Proposed Acquisition. Any existing

liabilities of HZM Companies will be settled by HZM Companies in the normal course of business.

Further details of HZM Companies, including the financial data and original dates and cost of investment will be announced upon the execution of the Sale and Purchase Agreement in relation to the Proposed Acquisition.

2.5 Other terms and conditions

Other terms of the MOA include the following -

(a) Identified key management personnel of HZM Companies shall enter into an exclusive service contract for 3 years from the date of the Completion.

(b) The Vendors shall not for an indefinite period from the completion date of the Sale and Purchase Agreement for the Proposed Acquisition, either solely or jointly with or on behalf of any person directly or indirectly carry on or be engaged or interested in any activity competing with the business activities similar to the business activities of HZM Companies unless with expressed authorization from the Purchaser.

3. Rationale for the Proposed Acquisition

The Proposed Acquisition will allow the KNM Group to enhance its presence through manufacturing of process equipment for the Oil & Gas, Petrochemicals, Mining and Biofuels industry and enables the KNM Group to have immediate manufacturing capacity in Brazil, access to clients in these industry sectors and enhance its presence in South America.

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 will 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 conditional upon -

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

(b) the signing of the Sale & Purchase Agreement by KNMI;

(c) the approvals of other relevant authorities, where applicable.

6. Directors' and substantial shareholders' Interest

None of the directors and/or substantial shareholders and persons connected to the directors and substantial shareholders of KNM 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 finalisation of the terms of the Proposed Acquisition and execution of the Sale and Purchase Agreement.

8. Documents for inspection

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

This announcement is dated 12 December 2007.