

**Circular**

Reference No **GR-060606-62421**

Company Name : **KNM GROUP BERHAD**

Stock Name : KNM

Date Announced : 06/06/2006

Subject : CIRCULAR TO SHAREHOLDERS IN RELATION TO THE PROPOSED BONUS ISSUE OF UP TO 85,314,108 NEW ORDINARY SHARES OF RM0.50 EACH IN KNM ("KNM SHARES") CREDITED AS FULLY PAID-UP ON THE BASIS OF ONE (1) NEW KNM SHARE FOR EVERY TWO (2) EXISTING KNM SHARES HELD

Contents :



KNM-Circular.pdf

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the course of action to be taken, 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 KNM Group Berhad ("KNM" or "Company"), you should at once send this Circular together with the accompanying Form of Proxy to the agent through whom the sale or transfer was contracted for transmission to the purchaser or transferee.

Bursa Malaysia Securities Berhad has not perused the contents of this Circular prior to its issuance, takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



**KNM GROUP BERHAD**

(Incorporated in Malaysia under the Companies Act, 1965)  
(Company No.: 521348-H)

**CIRCULAR TO SHAREHOLDERS**

**IN RELATION TO THE**

**PROPOSED BONUS ISSUE OF UP TO 85,314,108 NEW ORDINARY SHARES OF RM0.50 EACH IN KNM ("KNM SHARES") CREDITED AS FULLY PAID-UP ON THE BASIS OF ONE (1) NEW KNM SHARE FOR EVERY TWO (2) EXISTING KNM SHARES HELD**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

*Adviser*



**AVENUE SECURITIES SDN BHD (682-X)**  
*(A Participating Organisation of Bursa Malaysia Securities Berhad)*  
*(Wholly-Owned Subsidiary of Avenue Capital Resources Berhad)*

The Notice of the Extraordinary General Meeting of KNM which will be held at Parameswara Ballroom, Level 2, Palace Beach & Spa (formerly known as Mines Beach Resort & Spa), Jalan Dulang, Off Jalan Balakong, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 28 June 2006 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 4<sup>th</sup> Annual General Meeting of the Company, which will be held at the same venue and on the same day at 10.00 a.m., whichever is later, together with the Form of Proxy are enclosed herewith.

You are urged to complete and lodge the Form of Proxy at the registered office of the Company at 15, Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan on or before the time and date indicated below or any adjournment thereof. 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 the Form of Proxy	:	Monday, 26 June 2006 at 11.00 a.m.
Date and time of the Extraordinary General Meeting	:	Wednesday, 28 June 2006 at 11.00 a.m.

**This Circular is dated 6 June 2006**

## DEFINITIONS

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

“Act”	: Companies Act, 1965, as amended from time to time and any re-enactment thereof
“AGM”	: Annual general meeting
“Avenue”	: Avenue Securities Sdn Bhd
“Bonus Shares”	: Up to 85,314,108 new KNM Shares to be issued pursuant to the Proposed Bonus Issue
“Board”	: Board of Directors of KNM
“Bursa Depository”	: Bursa Malaysia Depository Sdn Bhd
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“CDS”	: Central Depository System
“EGM”	: Extraordinary general meeting
“Entitlement Date”	: The date as at the close of business to be determined later by the Board on which the names of the shareholders of KNM must appear in the Record of Depositors in order to be entitled to the Proposed Bonus Issue
“EPS”	: Earnings per share
“ESOS”	: Employees’ share option scheme of KNM
“KNM” or “the Company”	: KNM Group Berhad
“KNM Group” or “the Group”	: KNM, its subsidiaries and associated companies
“Listing Requirements”	: Bursa Malaysia Securities Listing Requirements
“Market Day”	: A day on which the stock market of Bursa Securities is open for trading of securities
“NA”	: Net assets
“Options”	: The options granted under the ESOS which are exercisable immediately as at 11 May 2006.
“Placement Shares”	: New KNM Shares to be issued pursuant to the Proposed Private Placement
“Proposed Bonus Issue”	: Proposed bonus issue of up to 85,314,108 new KNM Shares to be credited as fully paid-up on the basis of one (1) new KNM Share for every two (2) existing KNM Shares on a date to be determined later
“Proposed Private Placement”	: Proposed private placement of such number of Placement Shares representing up to 10% of the issued and paid-up share capital of KNM at an issue price to be fixed
“Record of Depositors”	: A record provided by Bursa Depository to the Company under Chapter 24.0 of the Rules of Bursa Depository

**DEFINITIONS (cont'd)**

“RM” and “sen” : Ringgit Malaysia and sen respectively

In this Circular, unless there is something in the subject or context inconsistent herewith, the singular includes the plural, references to gender include both genders and the neuter.

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**ENCLOSED**



## **KNM GROUP BERHAD**

(Incorporated in Malaysia under the Companies Act, 1965)  
(Company No.: 521348-H)

### **Registered Office:**

15, Jalan Dagang SB4/1  
Taman Sungai Besi Indah  
43300 Seri Kembangan  
Selangor Darul Ehsan

6 June 2006

### **Board of Directors:**

Y Bhg. Dato' Abdul Rani bin Mohd Razalli (*Executive Chairman*)  
Ir Lee Swee Eng (*Managing Director*)  
Lim Yu Tey (*Senior Independent Non-Executive Director*)  
Y Bhg. Dato' Ab Halim bin Mohyiddin (*Independent Non-Executive Director*)  
Y Bhg. Dato' Mohamad Idris bin Mansor (*Independent Non-Executive Director*)  
Mohamed Tajudin bin Mohamed Alias (*Independent Non-Executive Director*)  
Lee Hui Leong (*Executive Director*)  
Gan Siew Liat (*Executive Director*)  
Chew Fook Sin (*Executive Director*)

### **To: The Shareholders of KNM**

Dear Sir/Madam,

#### **• PROPOSED BONUS ISSUE**

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### **1. INTRODUCTION**

On 20 March 2006, Avenue on behalf of the Board announced that the Company proposes to implement a bonus issue of new KNM Shares on the basis of one (1) Bonus Share for every two (2) existing KNM Shares held on the Entitlement Date.

The purpose of this Circular is to provide you with details of the Proposed Bonus Issue with the recommendation of the Board as well as to seek your approval for the resolution to be tabled at the forthcoming EGM. The Notice of EGM is enclosed in this Circular.

Save for the Proposed Bonus Issue and Proposed Private Placement (which was announced on 25 April 2006), KNM does not have any other intended corporate exercise/scheme announced but not yet completed.

**SHAREHOLDERS OF KNM ARE ADVISED TO READ THE CONTENTS AND THE APPENDICES OF THIS CIRCULAR BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED BONUS ISSUE.**

## 2. DETAILS OF THE PROPOSED BONUS ISSUE

The Proposed Bonus Issue shall involve the issuance of up to 85,314,108 new KNM Shares, to be credited as fully paid-up by the Company, on the basis of one (1) Bonus Share for every two (2) existing KNM Shares held by the shareholders of KNM whose names appear in the Record of Depositors on the Entitlement Date.

The maximum number of new KNM Shares that may be issued under the Proposed Bonus Issue was arrived at after considering the following:-

- (i) the issued and paid-up share capital of KNM as at 11 May 2006 of 151,821,300 KNM Shares;
- (ii) assuming all the 3,295,260 outstanding Options exercisable into 3,295,260 KNM Shares as at 11 May 2006 will be fully exercised prior to the Entitlement Date; and
- (iii) assuming 15,511,656 Placement Shares will be allotted and issued prior to the Entitlement Date representing 10% of the issued and paid-up share capital of KNM as at 11 May 2006 (and assuming full exercise of the Options as mentioned in paragraph (ii) above).

KNM have not granted any additional Options under the ESOS from 11 May 2006 up to the date of this Circular.

The Proposed Bonus Issue shall be effected by way of capitalisation of up to RM42.657 million from the following:-

- (i) Up to RM15.195 million from the share premium account of the Company. Based on the latest audited consolidated financial statements of KNM for the financial year ended 31 December 2005, the share premium account of KNM (at company level) amounted to RM3.638 million. The share premium account of KNM is expected to be increased to RM15.195 million after taking into account the following:-
  - (a) the exercise of 2,209,500 Options comprising 800,600 Options exercisable at RM1.63 per Share and 1,408,900 Options exercisable at RM2.88 per Share from the period from 1 January 2006 to 11 May 2006; and
  - (b) assuming the full exercise of 3,295,260 outstanding Options as at 11 May 2006 comprising 434,760 Options exercisable at RM1.63 per Share and 2,860,500 Options exercisable at RM2.88 per Share.

The Company's share premium account based on the unaudited management accounts of KNM for the three (3) months period 31 March 2006 stood at RM4.915 million.

- (ii) The balance from the retained profits of the Company. Based on the latest audited consolidated financial statements of KNM for the financial year ended 31 December 2005, the KNM Group have retained profits of RM71.866 million, whilst KNM at the company level has retained profits of RM7.698 million. Based on the management accounts of the KNM Group for the three (3) month period ended 31 March 2006, the KNM Group have retained profits of RM91.672 million, whilst KNM at the company level has retained profits of RM9.512 million. The Board had on 23 February 2006 recommended a final dividend of five (5) sen per KNM Share less income tax at 28% for the financial year ended 31 December 2005 to be approved by the shareholders of KNM at the forthcoming AGM. As KNM does not have sufficient retained profits to implement the Proposed Bonus Issue, the subsidiaries of KNM will declare sufficient net dividends to KNM to provide it with required retained profits for the purpose of the Proposed Bonus Issue; and
- (iii) In the event that the Placement Shares are allotted and issued prior to the Entitlement Date, the additional share premium arising from the issuance of these Shares shall also be utilized for the capitalization of the Proposed Bonus Issue. For illustrative purpose, on the assumption that 15,511,656 Placement Shares were issued at an issue price of RM5.53 per Share (representing a 5% discount on the five (5)-day weighted average price of KNM Shares immediately preceding 11 May 2006) the share premium of KNM will be increased by RM78.024 million.

KNM's external auditors, Messrs KPMG, had via its letter dated 2 June 2006 confirmed that the Company has sufficient reserves to be capitalised for the Proposed Bonus Issue based on the available reserves of KNM as at 31 December 2005, additional share premium reserves assuming the exercise of Options and issuance of Placement Shares as well as dividends available for distribution by the subsidiary of KNM.

The Board will ensure that the Company will have the required reserves prior to the implementation of the Proposed Bonus Issue.

The Bonus Shares upon allotment and issue, shall rank equally in all respects with the existing KNM Shares save and except that they shall not be entitled to participate in any rights, allotments, dividends and/or other distributions, the entitlement date of which is prior to the date of allotment of the Bonus Shares. KNM shall within ten (10) Market Days from the Entitlement Date or such other period as may be prescribed by Bursa Securities, allot and issue the Bonus Shares. In determining the shareholders' entitlement, fractional entitlements will be disregarded and dealt with in such manner, as the Directors of KNM in their discretion consider expedient and in the best interest of the Company.

The Bonus Shares are prescribed securities under Section 14(5) of the Securities Industry (Central Depositories) Act, 1991. Therefore the Bonus Shares will be credited into the respective CDS account of the entitled shareholders and no physical share certificates will be issued.

As a result of the Proposed Bonus Issue, adjustments may be made to the exercise prices and number of KNM Shares to be issued pursuant to the exercise of the outstanding Options in accordance with the bye-laws of the ESOS.

### **3. RATIONALE FOR THE PROPOSED BONUS ISSUE**

The Proposed Bonus Issue will increase the issued and paid-up share capital of the Company to a level which would be more reflective of the existing operations and assets employed by the KNM Group. The Proposed Bonus Issue will reward the Company's shareholders through the distribution of the Company's share premium and/or retained profits in the form of Bonus Shares.

The Proposed Bonus Issue will also enlarge the number of KNM Shares held by the existing KNM shareholders (whilst maintaining their percentage equity interest) and make the KNM Shares more affordable, which is expected to increase the liquidity of the KNM Shares on Bursa Securities.

#### 4. EFFECTS OF THE PROPOSED BONUS ISSUE

##### 4.1 Share Capital

The proforma effects of the Proposed Bonus Issue on the issued and paid-up share capital of KNM are set out below:-

**Minimum Scenario:** Assuming none of the outstanding Options are exercised prior to the implementation of the Proposed Bonus Issue and the Proposed Bonus Issue is to be implemented before the Proposed Private Placement

	<b>No. of KNM Shares '000</b>	<b>Share Capital RM'000</b>
Issued and paid-up share capital as at 11 May 2006	151,821	75,911
To be issued pursuant to the Proposed Bonus Issue	75,911	37,955
Enlarged issued and paid-up share capital	<u>227,732</u>	<u>113,866</u>

**Maximum Scenario:** Assuming full exercise of the 3,295,260 outstanding Options (as at 11 May 2006) and the implementation of the Proposed Private Placement prior to the Proposed Bonus Issue

	<b>No. of KNM Share '000</b>	<b>Share Capital RM'000</b>
Issued and paid-up share capital as at 11 May 2006	151,821	75,911
Assuming full exercise of outstanding Options	3,296	1,648
To be issued pursuant to the Proposed Private Placement <sup>#</sup>	15,512	7,756
	<u>170,629</u>	<u>85,315</u>
To be issued pursuant to the Proposed Bonus Issue	85,314	42,657
Enlarged issued and paid-up share capital	<u>255,943</u>	<u>127,972</u>

**Note:-**

<sup>#</sup> Assuming 15,511,656 Placement Shares are issued pursuant to the Proposed Private Placement.



**Maximum Scenario:** Assuming full exercise of the 3,295,260 outstanding Options and the implementation of the Proposed Private Placement prior to the Proposed Bonus Issue

	As at 11 May 2006			(I) Assuming full exercise of the Options			(II) After (I) and the Proposed Private Placement <sup>a</sup>		
	<---Direct--->	<---Indirect--->	No. of KNM Shares ('000)	<---Direct--->	<---Indirect--->	No. of KNM Shares ('000)	<---Direct--->	<---Indirect--->	No. of KNM Shares ('000)
IMSB	42,957	28.29	3,991 <sup>(1)</sup>	42,957	27.69	3,991 <sup>(1)</sup>	42,957	25.18	3,991 <sup>(1)</sup>
PSSB	-	-	46,948 <sup>(2)</sup>	-	-	46,948 <sup>(2)</sup>	-	-	46,948 <sup>(2)</sup>
Ir Lee Swee Eng	1,200	0.79	46,948 <sup>(3)</sup>	1,200 <sup>(6)</sup>	0.77	46,948 <sup>(3)</sup>	1,200	0.70	46,948 <sup>(3)</sup>
Gan Siew Liat	180	0.12	46,948 <sup>(4)</sup>	680 <sup>(7)</sup>	0.44	46,948 <sup>(4)</sup>	680	0.40	46,948 <sup>(4)</sup>
Chew Fook Sin	180	0.12	46,948 <sup>(5)</sup>	1,080 <sup>(7)</sup>	0.70	46,948 <sup>(5)</sup>	1,080	0.63	46,948 <sup>(5)</sup>

	(III) After (II) and the Proposed Bonus Issue		
	<---Direct--->	<---Indirect--->	No. of KNM Shares ('000)
IMSB	64,435	25.18	5,987 <sup>(1)</sup>
PSSB	-	-	70,422 <sup>(2)</sup>
Ir Lee Swee Eng	1,800	0.70	70,422 <sup>(3)</sup>
Gan Siew Liat	1,020	0.40	70,422 <sup>(4)</sup>
Chew Fook Sin	1,620	0.63	70,422 <sup>(5)</sup>

Notes:-

- # *Assuming 15,511,656 Placement Shares are issued pursuant to the Proposed Private Placement to independent investors which will each hold less than 5% of the issued and paid-up share capital of KNM.*
- (1) *Deemed interested by virtue of direct interest in JKSB pursuant to Section 6A of the Act.*
  - (2) *Deemed interested by virtue of direct interest in IMSB pursuant to Section 6A of the Act.*
  - (3) *Deemed interested by virtue of direct interest in PSSB pursuant to Section 6A of the Act.*
  - (4) *Deemed interested by virtue of her and her spouse. Ir Lee Swee Eng's direct interest in PSSB pursuant to Section 6A of the Act.*
  - (5) *Deemed interested by virtue of his sister in-law. Gan Siew Lai's direct and indirect interest in PSSB pursuant to Section 6A of the Act.*
  - (6) *The Options that were allocated to Ir Lee Swee Eng has been fully exercised as at 11 May 2006.*
  - (7) *The Options that were allocated to but not exercised as at 11 May 2006 for Gan Siew Lai and Chew Fook Sin are 500,000 Options and 900,000 Options respectively.*

### 4.3 NA

Based on the audited consolidated financial statements of KNM for the financial year 31 December 2005, the proforma effects of the Proposed Bonus Issue on the consolidated NA are as follows:-

**Minimum Scenario:** Assuming none of the outstanding Options are exercised prior to the implementation of the Proposed Bonus Issue and the Proposed Bonus Issue is to be implemented before the Proposed Private Placement

	<b>Audited as at 31 December 2005 RM'000</b>	<b>(I) Subsequent exercise of Options* RM'000</b>	<b>(II) After (I) and the Proposed Bonus Issue RM'000</b>
Share capital	74,806	75,911	113,866
Share premium	3,638	7,896	(1) -
Reserves	7,109	7,109	7,109
Retained profit	71,866	71,866	(1) & (2) 41,657
Shareholders' funds/ NA	157,419	162,782	162,632
Number of shares ('000)	149,612	151,821	227,732
NA per share (RM)	1.05	1.07	0.71

**Notes:-**

\* After taking into account the exercise of 1,408,900 Options and 800,600 Options at an exercisable price of RM2.88 and RM1.63 per Share respectively from 1 January 2006 to 11 May 2006.

(1) Assuming that the 75,910,650 new Bonus Shares will be effected through the capitalisation of RM7.896 million from the Company's share premium account and RM30.059 million from the Company's retained profits (after taking into account the necessary dividends to be declared by KNM's subsidiary).

(2) After deducting estimated expenses in relation to the Proposed Bonus Issue of RM150,000.

**Maximum Scenario:** Assuming full exercise of the 3,295,260 outstanding Options and the implementation of the Proposed Private Placement prior to the Proposed Bonus Issue

	(I) Audited as at 31 December 2005	(II) Subsequent exercise of Options*	(III) After (I) and assuming full exercise of Options	(IV) After (II) and the Proposed Private Placement	(V) After (III) and the Proposed Bonus Issue
	RM'000	RM'000	RM'000	RM'000	RM'000
Share capital	74,806	75,911	77,559	85,315	127,972
Share premium	3,638	7,896	<sup>(1)</sup> 15,195	<sup>(2)</sup> 93,218	<sup>(3)</sup> 50,561
Reserves	7,109	7,109	7,109	7,109	7,109
Retained profit	71,866	71,866	71,866	71,866	<sup>(4)</sup> 71,716
Shareholders' funds/ NA	157,419	162,782	171,729	257,508	257,358
Number of shares ('000)	149,612	151,821	155,117	170,629	255,941
NA per share (RM)	1.05	1.07	1.11	1.51	1.01

**Notes:-**

\* After taking into account the exercise of 1,408,900 Options and 800,600 Options at an exercisable price of RM2.88 and RM1.63 per Share respectively from 1 January 2006 to 11 May 2006.

(1) Assuming the full exercise of 3,295,260 outstanding Options as at 11 May 2006 comprising 434,760 Options exercisable at RM1.63 per Share and 2,860,500 Options exercisable at RM2.88 per Share.

(2) For illustrative purpose, on the assumption that 15,511,656 Placement Shares were issued at an issue price of RM5.53 per Share (representing a 5% discount on the five (5)-day weighted average price of KNM Shares immediately preceding 11 May 2006), the share premium of KNM will be increased by RM78.023 million.

(3) Assuming the 85,314,108 new KNM Shares to be issued under the Proposed Bonus Issue will be effected through the capitalisation of RM42.657 million from the Company's share premium account.

(4) After deducting the estimated expenses in relation to the Proposed Bonus Issue of RM150,000.

#### 4.4 Earnings

The Proposed Bonus Issue is not expected to have any effect on the earnings of the KNM Group for the financial year ending 31 December 2006. However, the EPS of the KNM Group will correspondingly be affected as a result of the increase in the issued and paid-up share capital of the Company upon completion of the Proposed Bonus Issue and is also dependent on the level of earnings to be generated by the KNM Group during the financial year ending 31 December 2006.

#### 4.5 Dividend

The Board had on 23 February 2006 recommended a final dividend of five (5) sen per KNM Share less income tax at 28% to be approved by the shareholders of KNM at the forthcoming AGM of the Company. The Board has not decided on the dividend payment for the financial year ending 31 December 2006. The decision to declare and pay dividends in the future would depend on the performance, cashflow position and financing requirements of the KNM Group.

## 5. APPROVALS REQUIRED

The Proposed Bonus Issue is subject to and conditional upon approvals being obtained from the followings:-

- (i) Bursa Securities, for the listing of and quotation for the Bonus Shares;
- (ii) Shareholders of KNM at the forthcoming EGM; and
- (iii) Other relevant authorities (if any).

## 6. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

None of the Directors and/or substantial shareholders of KNM and/or persons connected to them have any interest, direct or indirect, in the Proposed Bonus Issue beyond their respective entitlements as shareholders of KNM under the Proposed Bonus Issue, for which all the existing shareholders of KNM are also entitled.

## 7. DIRECTORS' RECOMMENDATION

After having considered all aspects of the Proposed Bonus Issue, the Board is of the opinion that the Proposed Bonus Issue is in the best interest of the Company. The Board recommends that you vote in favour of the resolution to be tabled at the forthcoming EGM to give effect to the Proposed Bonus Issue.

## 8. EGM

An EGM, the notice of which is set out in this Circular, will be held at Parameswara Ballroom, Level 2, Palace Beach & Spa (formerly known as Mines Beach Resort & Spa), Jalan Dulang, Off Jalan Balakong, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 28 June 2006 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 4<sup>th</sup> Annual General Meeting of the Company, which will be held at the same venue and on the same day at 10.00 a.m., whichever is later, for the purpose of considering and, if thought fit, passing the resolutions of the Proposed Bonus Issue.

If you are unable to attend the EGM in person, please complete the enclosed Form of Proxy and forward it to the registered office of the Company at 15, Jalan Dagang SB4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan so as to arrive not later than forty-eight (48) hours before the time set for the EGM or at any adjournment thereof. The Form of Proxy should be completed strictly in accordance with the instructions contained therein. The completion and return of the Form of Proxy will not preclude you from attending and voting in person if you should so decide later.

## 9. FURTHER INFORMATION

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

Yours faithfully  
for and on behalf of the Board of Directors  
**KNM GROUP BERHAD**

**Ir Lee Swee Eng**  
Managing Director

**HISTORICAL SHARE PRICES**

The monthly highest and lowest market prices of KNM Shares for the past twelve (12) months as transacted on Bursa Securities are as follows:-

	<b>High RM</b>	<b>Low RM</b>
<b>2005</b>		
May	2.60	2.32
June	2.56	2.30
July	2.86	2.52
August	3.10	2.72
September	3.80	2.95
October	3.70	3.14
November	3.46	3.04
December	3.64	3.16
<b>2006</b>		
January	4.26	3.58
February	4.92	4.28
March	5.10	4.72
April	5.35	4.96
The last transacted market price on 17 March 2006 <i>(being the preceding market day prior to the announcement of the Proposed Bonus Issue on 20 March 2006)</i>		RM4.90
The last transacted market price on 30 May 2006 <i>(being the latest practicable date prior to the printing of this Circular)</i>		RM5.85

*(Source: Bloomberg)*

## FURTHER INFORMATION

### 1. RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board who, individually and collectively, accepts full responsibility for the accuracy of the information given in this Circular and confirms that, after making all enquiries as were reasonable in the circumstances, and to the best of its knowledge and belief, there are no false or misleading statements or other facts, the omission of which would make any statement herein false or misleading.

### 2. CONSENTS

Avenue and Messrs KPMG have given and have not subsequently withdrawn their written consents to the inclusion in this Circular of their names and all references thereon in the form and context in which they appear.

### 3. MATERIAL CONTRACTS

Save as disclosed below, neither KNM nor any of its subsidiaries have entered into any contracts which are or may be material (not being contracts entered into in the ordinary course of business of the Company or its subsidiaries) during the two (2) years immediately preceding the date of this Circular:-

- (i) The conditional share sale and shareholders' agreement dated 21 May 2004 ("Share Sale and Shareholders Agreement") entered into between KNM International Sdn Bhd ("KNMI"), a wholly-owned subsidiary of KNM and FBM-Hudson Italiana SpA ("FBM") for the proposed acquisition by KNMI of 50% of the issued and paid-up share capital of FBM-KNM FZCO, a company incorporated under the rules and regulations of the Jebel Ali Free Zone Authority (as amended) from FBM for a cash consideration of Euro10 million or equivalent RM45.6 million (based on the exchange rate of RM4.56 per Euro1.00 as at 21 May 2004) ("Acquisition") and the proposed subscription of Euro2 million or equivalent to RM9.12 million (based on the exchange rate of RM4.56 per Euro1.00 each as at 21 May 2004) by KNMI and FBM respectively new ordinary shares of FBM-KNM FZCO upon completion of the Acquisition;
- (ii) The conditional commercial cooperation agreement dated 21 May 2004 entered into between KNMI and FBM for the commercial cooperation between the said parties on manufacturing or part manufacturing of aircooled heat exchangers including air finned coolers ("Products") for orders from certain countries and to jointly and exclusively market the Products in certain countries;
- (iii) Facility agreement between KNM and Amanah Short Deposits Berhad ("ASD") dated 3 June 2004; Agency Agreement and Depository Agreement between KNM, ASD and Bumiputra-Commerce Trustee Berhad ("BCTB") dated 3 June 2004; Trust Deed, Security Agency Agreement, Assignment of Designated Accounts and Assignment of Contract Proceeds between KNM and BCTB dated 3 June 2004; and Assignment of Designated Accounts and Assignment of Contract Proceeds between KNM Process Systems Sdn Bhd ("KNMPS") and BCTB dated 3 June 2004, for the issuance of up to RM150.0 million Murabahah Underwritten Notes Issuance Facility/Islamic Medium Term Notes;
- (iv) The interim escrow agreement between FBM, KNMI, FBM-KNM FZCO and HSBC Institutional Trust Services (Singapore) Limited ("Escrow Agent") dated 15 October 2004 for provision of interim escrow services by Escrow Agent under the Share Sale and Shareholders Agreement;
- (v) The escrow agreement between FBM, KNMI, FBM-KNM FZCO and Escrow Agent dated 15 October 2004 for provision of escrow services by Escrow Agent under the Share Sale and Shareholders Agreement;

- (vi) The conditional sale and purchase of shares agreement between KNMPS as well as Mohd Shahrom Bin Abd Rahim and Hanuar Bin Mohd Darus, being the shareholders of Sumber Amantech Sdn Bhd (“Sumber”) dated 29 November 2004 for the acquisition by KNMPS of the entire issued and paid-up share capital of Sumber, comprising 2 ordinary shares of RM1.00 each, for a cash consideration of RM2.00;
- (vii) The conditional sale and purchase of shares agreement between Sumber as well as Mechmar Corporation (Malaysia) Berhad, Keppel Integrated Engineering Limited, Sigmaindah Resources Sdn Bhd, Duta Legian Sdn Bhd and Tronica Pte Ltd, being the shareholders of MKE Engineering Sdn Bhd (“MKE”) dated 29 November 2004 for the acquisition by Sumber of the entire issued and paid-up share capital of MKE, comprising 9,000,000 shares of RM1.00 each for a cash consideration of RM5,800,000;
- (viii) The land tenancy agreement between Kuantan Port Konsortium Sdn Bhd (“KPK”) and KNM Ogpet (East Coast) Sdn Bhd (“KNM Ogpet”) dated 8 February 2005 wherein KPK agreed to let and KNM Ogpet agreed to rent a portion of the land held under Pajakan Negeri 550, Lot No. 1863, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang for RM49,920 per month for the duration of three (3) years with an option to renew for another three (3) years;
- (ix) The conditional share purchase agreement between KNMPS and Process Heat Transfer Pty Ltd, a company incorporated in Australia dated 30 December 2005 for the acquisition of 51% (plus one (1) share) equity interest in Hudson Products Pacific Pty Ltd, a company incorporated in Australia comprising 2,193,001 fully paid-up ordinary shares and one (1) partially paid-up ordinary share for a cash consideration of USD3,000,000 by KNMPS;
- (x) The conditional share sale agreement dated 31 December 2005 entered into between KNMI and Hamon & Cie International SA, a company incorporated in Belgium (“Hamon”) for the following:-
  - (a) Acquisition by KNMI of the entire equity interest in FBM, a company incorporated in Italy comprising 228,000 fully paid-up ordinary shares of Euro1.00 each from Hamon for a cash consideration of Euro1,750,180; and
  - (b) Purchase by KNMI for the face value debt owing by FBM to its financial institution lenders amounting to Euro16,689,894 for a cash consideration of 30% of the said debt of Euro5,006,968.
 (Collectively, the “FBM Acquisition”)
- (xi) The memorandum of agreement dated 15 February 2006 entered into between KNMPS and the management of FBM (“Management”) in relation to the following:-
  - (a) to revise the structure of the FBM Acquisition by using a company incorporated in the Netherlands (“Newco”) which will be owned by KNMPS as the acquirer; and
  - (b) the establishment of a performance-based share option scheme for the Management.
- (xii) The share sale agreement dated 4 April 2006 between KNMPS and Riccardo Manisco representing the Management for the acquisition of 100% of the enlarged share capital of FBM Hudson Italiana BV (“FBMHIBV”), i.e. the Newco incorporated under the laws of Netherlands, from the Management;
- (xiii) The letter of novation dated 11 April 2006 issued by KNMI to effect the novation of the conditional share sale agreement in respect of the FBM Acquisition by KNMI to FBMIHIBV; and

- (xiv) Four (4) debt settlement agreements dated 11 April 2006 between FBM and KNMI with the following financial institutions, namely Bear Stearns Bank Plc, Banca d'Impresa and Banc of America Securities Limited, Banca Popolare Commercio e Industria SpA and Banca Regionale Europea SpA for the purchase of debts from these financial institutions which form an integral part of the FBM Acquisition. In accordance to the terms of the FBM Acquisition, the said debt settlement agreements have been novated by KNMI to FBMHIBV.

**4. MATERIAL LITIGATION**

KNM and its subsidiaries are not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of KNM and its subsidiaries and the Directors of KNM are not aware of any proceedings, pending or threatened, against KNM and its subsidiaries or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of KNM and its subsidiaries.

**5. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection 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 between Monday and Friday (except public holidays) from the date of this Circular up to and including the date of the EGM:

- (i) Memorandum and Articles of Association of KNM;
- (ii) Audited consolidated financial statements of KNM for the past two (2) financial years ended 31 December 2005;
- (iii) Unaudited financial statements of the KNM Group for the financial period ended 31 March 2006;
- (iv) The letters of consent referred to in Section 2 of this Appendix; and
- (v) The material contracts referred to in Section 3 of this Appendix;



## **KNM GROUP BERHAD**

(Incorporated in Malaysia under the Companies Act, 1965)  
(Company No.: 521348-H)

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of KNM Group Berhad ("KNM" or the "Company") will be held at Parameswara Ballroom, Level 2, Palace Beach & Spa (formerly known as Mines Beach Resort & Spa), Jalan Dulang, Off Jalan Balakong, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 28 June 2006 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 4<sup>th</sup> Annual General Meeting of the Company, which will be held at the same venue and on the same day at 10.00 a.m., whichever is later, for the purpose of considering, and if thought fit, passing with or without any modifications, the following resolution:-

#### **ORDINARY RESOLUTION**

- **PROPOSED BONUS ISSUE OF UP TO 85,314,108 NEW ORDINARY SHARES OF RM0.50 EACH IN KNM ("KNM SHARES") CREDITED AS FULLY PAID-UP ON THE BASIS OF ONE (1) NEW KNM SHARE FOR EVERY TWO (2) EXISTING KNM SHARES HELD ("PROPOSED BONUS ISSUE")**

**"THAT**, approval be and is hereby given to the Directors of the Company to capitalise and apply a total sum of up to RM42.657 million from the Company's share premium account and/or retained profits for the purposes of the Proposed Bonus Issue, the details of which are set out in Section 2 of the Circular to Shareholders of the Company dated 6 June 2006;

**THAT** the Directors of the Company be and are hereby authorised to apply such sums and to issue at par, up to 85,314,108 new KNM Shares to be credited as fully paid-up and such KNM Shares to be allotted to the shareholders of the Company whose names appear in the Record of Depositors of the Company as at the close of business on an entitlement date to be determined and announced later by the Directors of the Company ("Entitlement Date"), in the proportion of one (1) new KNM Share for every two (2) existing KNM Shares held in the Company on the Entitlement Date;

**THAT** fractional entitlements shall be dealt with by the Directors of the Company in such manner as the Directors of the Company may in their absolute discretion think fit and expedient and in the best interest of the Company and shareholders;

**THAT** the Bonus Shares shall, upon issue and allotment, rank pari passu in all respects with the existing KNM Shares save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared by the Company, the entitlement date of which is prior to the date of allotment of the Bonus Shares;

**AND THAT** the Directors of the Company be and are hereby authorised to give effect to implement and execute all documents and do all acts, deeds, and things as may be required for or in connection with the Proposed Bonus Issue with full powers to assent to any modifications, conditions, variations and/or amendments as may be required by the relevant authorities."

**BY ORDER OF THE BOARD**

CHIA KWOK WHY (MAICSA 7005833)  
YEOW SENG CHONG (L.S 006878)  
Company Secretaries

Seri Kembangan, Selangor Darul Ehsan  
6 June 2006

*Notes:-*

1. *A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote in his/her stead.*
2. *A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.*
3. *The instrument appointing a proxy or proxies must be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if such appointee is a corporation, the instrument appointing a proxy or proxies must be executed under its common seal or under the hand of an officer or attorney of the corporation and must be deposited at the Registered Office of the Company at 15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.*
4. *Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.*



# KNM GROUP BERHAD

(Incorporated in Malaysia under the Companies Act, 1965)  
(Company No.: 521348-H)

## PROXY FORM

I / We, .....  
(FULL NAME IN BLOCK LETTERS)

of .....  
(FULL ADDRESS IN BLOCK LETTERS)

being a member / members of KNM GROUP BERHAD, hereby appoint .....  
(FULL NAME IN BLOCK LETTERS)

of .....  
(FULL ADDRESS IN BLOCK LETTERS)

or failing him, .....  
(FULL NAME IN BLOCK LETTERS)

of .....  
(FULL ADDRESS IN BLOCK LETTERS)

or failing him "THE CHAIRMAN OF THE MEETING"\*, as my / our proxy to attend and to vote for me / us on my / our behalf at the Extraordinary General Meeting of the Company to be held at Parameswara Ballroom, Level 2, Palace Beach & Spa (formerly known as Mines Beach Resort & Spa), Jalan Dulang, Off Jalan Balakong, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 28 June 2006 at 11.00 a.m or immediately after the conclusion or adjournment (as the case may be) of the 4<sup>th</sup> Annual General Meeting of the Company, which will be held at the same venue and on the same day at 10.00 a.m., whichever is later or at any adjournment thereof in respect of my/our holdings of shares in the manner indicated below:

	FOR	AGAINST
<b>ORDINARY RESOLUTION</b>		

(Please indicate with an "X" in the spaces provided how you wish your proxy / proxies to vote. If you do not do so, this form will be taken to authorise the proxy / proxies to vote or abstain from voting as he / she thinks fit).

Signature of Shareholder or Common Seal

<b>NO. OF SHARES HELD</b>

Dated this ..... day of ....., 2006.

### Notes:-

1. A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote in his/her stead.
2. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. The instrument appointing a proxy or proxies must be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if such appointee is a corporation, the instrument appointing a proxy or proxies must be executed under its common seal or under the hand of an officer or attorney of the corporation and must be deposited at the Registered Office of the Company at 15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
4. Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.

