

General Announcement

Reference No **KG-041127-50512**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
Date Announced : **29/11/2004**

Type : **Announcement**
Subject : **A. Proposed Acquisition By KNM Process Systems Sdn Bhd (KNMPS) of the entire issued and paid-up share capital of Sumber Amantech Sdn Bhd (Sumber) for a cash consideration of RM2.00 (Proposed Sumber Acquisition); and**

B. Proposed acquisition by Sumber of the entire issued and paid-up share capital of MKE Engineering Sdn Bhd (MKE) for a cash consideration of RM5,800,000 (Proposed MKE Acquisition).

Collectively referred to as Proposed Acquisitions.

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1. Introduction

The Board of Directors of KNM Group Berhad (**KNM**) wishes to announce that KNMPS, a wholly-owned subsidiary of KNM, entered into a conditional Sale And Purchase Of Shares Agreement with the shareholders of Sumber on 29 November 2004 (**Sumber SPA**) to acquire 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. Sumber has on even date entered into a conditional Sale And Purchase Of Shares Agreement with the shareholders of MKE (**MKE SPA**) to acquire 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. With the Proposed Sumber Acquisition, Sumber shall become a wholly owned subsidiary of KNMPS, and KNMPS will complete the Proposed MKE Acquisition via Sumber.

2. Details of the Proposed Acquisitions

2.1 Basis of Arriving at Purchase Consideration

The purchase consideration for the Proposed Acquisitions was arrived at after taking into consideration the paid-up share capital of Sumber of RM2.00 and the Proposed MKE Acquisition. The total consideration to be paid by KNMPS, for the Proposed Acquisitions is RM5,800,002.

The Sumber shares and MKE shares will be acquired free from all charges, liens, encumbrances and all liabilities and with all rights, benefits and advantages now or hereafter attaching thereto, including all bonuses, rights, dividends and distributions declared made and paid as from the Completion Date upon the terms and subject to the conditions thereto.

The purchase consideration for the Proposed Acquisitions was arrived at based on a willing buyer and willing seller basis after taking into consideration the adjusted unaudited net tangible assets of MKE as at 30 June 2004 of RM6.254 million.

The Proposed Acquisitions will be funded by a combination of internally generated funds and borrowings. There are no liabilities to be assumed by KNMPS pursuant to the Proposed Acquisitions.

Please refer to Table A and Table B which provides the detailed breakdown of the cash consideration for Sumber and MKE respectively.

2.2 Other Salient Terms of the SPAs

The MKE SPA

The other salient terms of the MKE SPA are, amongst others, as follows -

- (i) The Proposed MKE Acquisition shall be conditional upon -
 - (a) Sumber having obtained the approval from the Ministry of International Trade and Industry (MITI) for the purchase of the MKE shares;
 - (b) the approval of the board of directors and shareholders of MKE and the vendors (if required) for the sale and/or transfer of the MKE shares in favour of Sumber or its nominee(s), free from all liens, charges and encumbrances and with full legal and beneficial title and together with all rights attaching thereto (including all dividends and distributions declared in respect thereof) with effect from the completion date and the registration of Sumber or its nominee(s) as the registered shareholder of the MKE shares in accordance with the MKE SPA and Articles of Association of MKE and to enter into such deeds agreements or documents to give effect to the sale and/or transfer of the MKE shares in accordance with the MKE SPA;
 - (c) all requisite approvals of the lenders of MKE and/or its subsidiaries, in respect of the sale of the MKE shares provided that the vendors are not obliged to provide any corporate guarantee if requested by the lenders in complying with this condition precedent; and
 - (d) any other necessary approvals, where applicable.
- (ii) The completion date of the MKE SPA will be a date falling within ten (10) business days from the date when all conditions precedent are fulfilled.

3. Rationale for the Proposed Acquisitions

The Proposed MKE Acquisition will enable KNM to immediately increase its manufacturing capacity by approximately 4,000 metric tonnes per annum by utilising MKE's existing fabrication plant in Hicom Industrial Estate, Shah Alam, which has a built-up area of approximately 8,000 square metres, which is in line with KNM's expansion plans.

4. Information on Sumber and MKE

4.1 Information on Sumber

Sumber was incorporated in Malaysia on 17 June 2004. Sumber has an authorised share capital of RM100,000.00 comprising 100,000 ordinary shares of RM 1.00 each of which RM 2.00 comprising 2 ordinary shares of RM 1.00 each has been issued and fully paid up. Sumber is principally an investment holding company.

4.2 Information on MKE

MKE was incorporated in Malaysia on 19 July 1991 and has an authorized share capital of RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which RM9,000,000 comprising 9,000,000 ordinary shares of RM1.00 each has been issued and fully paid up. MKE is principally involved in undertaking of thermal insulation, mechanical piping contracts, fabrication and installation of steel tanks, vessels and structural steel works. Its core product is pressure vessels and its main contract customers are oil refinery companies. MKE's fabrication plant is located in Shah Alam with a built-up area of approximately 8,000 square metres.

5. Effects of the Proposals

5.1 Issued and paid-up share capital and shareholdings of substantial shareholders

As the Proposed Acquisitions involves the purchase of Sumber and MKE shares for cash consideration, they will not have any effect on the issued and paid-up share capital and shareholdings of the substantial shareholders of KNM.

5.2 NTA and NTA per Share

As the Proposed Acquisitions involve the purchase of Sumber and MKE shares for cash consideration, the above proposals are not expected to have any material effect of the NTA and NTA per share of the KNM Group.

5.3 Earnings

As the Proposed Acquisitions are only expected to be completed in the first quarter of financial year ending 31 December 2005, the Proposed Acquisitions is not expected to have any effect on the earnings of KNM Group for the financial year ending 31 December 2004. Barring unforeseen circumstances, the Proposed Acquisitions is expected to contribute positively to the earnings of the KNM Group for the future financial years.

6. Industry outlook and risks

6.1 Prospects

The growth of the manufacturing of process equipment for the oil, gas and petrochemical industries is dependent on the performance of its user industries which are namely producers and manufacturers of oil, gas and petrochemical products, intermediate users of oil, gas and petrochemical products for products manufactured for such industries and end-users of oil, gas and petrochemical products.

The growth driver for MKE is dependent on the consumption or end-user demand for oil, gas and petrochemical products. This is largely influenced by the following factors -

- (i) increase in demand for crude oil and natural gas driven by improvement in the performances of global economies;
- (ii) increase in exports of oil, gas and petrochemical products for the manufacturing sector; and
- (iii) increase in export of manufactured products that use oil, gas and petrochemical products.

Prospects for the activities and profitability of MKE will also depend on the continuing exploration and production activities of oil, gas and petrochemical companies to ensure future and long-term supply.

6.2 Risk Factors

(i) Global Oil Price Fluctuations

Crude oil and gas is a commodity subject to international long-term and spot prices. Some of the factors that may cause global oil prices to fluctuate include wars and the threat of wars, interruption from major oil producing countries, price and production pressures from cartels such as the Organisation of Petroleum Exporting Countries (OPEC) and significant drop in demand. Thus, an extended period of poor oil and gas prices may discourage exploration. At the same time, an extended high oil and gas prices may reduce the demand for oil, gas and petrochemical products. In such cases, the demand for the MKE's products may be affected although this will be mitigated somewhat by the requirements of the replacement market.

(ii) Alternatives to Oil And Gas

The proposed oil and gas-based activities of MKE are subject to the inherent risks within the oil, gas and petrochemical industries, particularly the significant move towards finding other energy sources as an alternative to oil and gas. However, it is not foreseeable that oil and gas will be significantly replaced by alternative energy resources in the immediate and medium term. In addition, regardless of the developments in alternative energy sources, industries throughout the world today and particularly, the manufacturing industry have grown highly dependent on oil and gas products. The high and continuing

use of oil and gas products by industries is expected to provide growth opportunities for manufacturers of the process equipments and air-cooled heat exchangers for the oil, gas and petrochemical industries.

(iii) Skilled Manpower

The business to be undertaken by MKE requires a high level of professionally qualified and skilled labour such as welders and machine operators. In this respect, there is a risk that MKE may face the potential threat of shortages in labour, which is deemed unlikely at present. KNM will ensure that MKE will provide competitive remuneration packages, training and promotional opportunities to retain suitable employees within the company.

(iv) Fluctuations In The Prices Of Raw Materials

The industry is subject to fluctuations in prices of raw materials, especially steel and this may have an impact on the profit margin of the manufacturers. However, it is normal practice in the industry for any increases in the prices of raw materials, including steel, to be passed on to customers.

7. Approvals required

The Proposed Acquisitions are subject to and conditional upon the following approvals:

- (i) the Foreign Investment Committee for the Proposed Sumber Acquisition;
- (ii) the Ministry of International Trade and Industry for the Proposed MKE Acquisition;
- (iii) the board of directors and shareholders of MKE for the Proposed MKE Acquisition; and
- (iv) any other relevant parties., where applicable.

8. Directors' and substantial shareholders' interests

To the best of the Company's knowledge, none of the Company's directors, major shareholders and persons connected with them have any interest, whether direct or indirect, in the Proposed Acquisitions.

9. Statement by the directors

The Board of Directors of KNM, having considered all aspects of the Proposed Acquisitions, is of the opinion that the Proposed Acquisitions are in the best interest of KNM.

10. Expected date of completion

Barring any unforeseen circumstances, the Proposed Acquisitions is expected to be completed by the first quarter of 2005.

11. Departures from the securities commission's policies and guidelines on issue/offer of securities

To the best of the Company's knowledge, the Proposed Acquisitions have not departed from the SC's Policies and Guidelines on Issue/Offer of Securities.

12. Documents for inspection

The Sumber SPA and MKE SPA are available for inspection at the registered office of the Company at No. 15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia during the normal business hours from Monday to Friday (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 29 November 2004.



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Table A

The vendors of Sumber and their shareholdings in Sumber as at 30 October 2004 are as follows:

Vendors	No. of shares held in MKE	Cost of investment (RM)	Date of investment	Purchase Consideration (RM)
Mohd Shahrom Bin Abd Rahim	1	1.00	20.09.04	1.00
Hanuar Bin Mohd Darus	1	1.00	20.09.04	1.00
TOTAL	2			2.00

Table B

The vendors of MKE and their shareholdings in MKE as at 30 October 2004 are as follows:

Vendors	No. of shares held in MKE	Cost of investment (RM)	Date of investment	Purchase Consideration (RM)
Mechmar Corporation (Malaysia) Berhad	4,275,000	4,275,000	Between October 1991 and February 1992	2,755,000
Keppel Integrated Engineering Limited	3,825,000	3,825,000	July 2000	2,465,000
Sigmaindah Resources Sdn Bhd	450,000	450,000	April 1996	290,000
Duta Legian Sdn Bhd	315,000	315,000	Between November 1991 and February 1992	203,000
Tronica Pte Ltd	135,000	135,000	Between November 1991 and February 1992	87,000
TOTAL	9,000,000			5,800,000