

## **General Announcement**

Reference No **CU-070424-57318**

Submitting Merchant Bank : ASEAMBANKERS MALAYSIA BERHAD  
Company Name : **KNM GROUP BERHAD**  
Stock Name : KNM  
Date Announced : 24/04/2007

Type : **Announcement**  
Subject : **(I) Proposed Bonus Issue On The Basis Of One (1) New Ordinary Share Of RM0.50 Each In KNM ("KNM Shares" or "Shares") For Every One (1) Existing KNM Share Held ("Proposed Bonus Issue"); and**  
**(II) Proposed Share Split Involving Subdivision Of Each Of The Existing KNM Shares Into Two (2) ordinary shares of RM0.25 each in KNM ("Proposed Share Split")**  
**(Collectively referred to as the "Proposals")**

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### **1. INTRODUCTION**

On behalf of the Board of Directors of KNM ("Board"), Aseambankers Malaysia Berhad ("Aseambankers") is pleased to announce that KNM proposes to implement the Proposals.

The Company also proposes to amend certain provisions of KNM's Memorandum and Articles of Association (M&A) to facilitate the Proposed Share Split ("Proposed M&A Amendments").

The details of the Proposals are set out in the ensuing sections.

### **2. DETAILS OF THE PROPOSALS**

#### **2.1 Proposed Bonus Issue**

The Proposed Bonus Issue involves the issuance of up to 263,451,140 new KNM Shares ("Bonus Shares"), on the basis of one (1) new Bonus Share for every one (1) existing KNM Share. The Proposed Bonus Issue will be implemented via the capitalisation of the share premium and retained profits of KNM, which amounts to a total of up to RM131,725,570.

As at 31 December 2006, KNM has a total of 9,631,625 outstanding options granted ("ESOS Options") under KNM's existing Employees' Share Option Scheme ("ESOS"), of which 5,668,790 ESOS Options are exercisable during the financial year ending 31 December 2007 ("Current Year Options").

The maximum number of KNM Shares that may be issued under the Proposed Bonus Issue was arrived at after considering the issued and paid-up share capital of KNM as at 31 December 2006 of 257,782,350 KNM Shares and on the assumption that all the 5,668,790 Current Year Options will be fully exercised prior to the entitlement date for the Proposed Bonus Issue ("Entitlement Date") which will be determined at a later date.

The Proposed Bonus issue will be effected by way of capitalisation of up to RM131.726 million from the following accounts:-

(i) Up to RM59.752 million from the share premium account of the Company. Based on the latest unaudited consolidated financial statements of KNM for the financial year ended 31 December 2006, the share premium account of KNM amounts to RM55.836 million. On the assumption that all the 5,668,790 Current Year Options are fully exercised prior to the Entitlement Date, the share premium account of KNM will be increased to RM59.752 million; and

(ii) Up to a maximum of RM71.974 million from the retained profits accounts of the Company. Based on the latest unaudited consolidated financial statements of KNM for the financial year ended 31 December 2006, the KNM group of companies ("KNM Group") have retained profits of RM199.906 million, whilst KNM at the company level has retained profits of RM26.068 million. As KNM does not have sufficient retained profits at company level for capitalisation of 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.

The Company will secure a confirmation of its external auditor that KNM's subsidiaries have sufficient Section 108 tax credit and/or tax exempt income to declare such dividends to KNM for the purpose of the Proposed Bonus Issue.

The Board confirms that the Company's share premium account and the retained profits account are not impaired by any losses on a consolidated basis as at the Company's latest audited results and unaudited quarterly report for the financial year ended 31 December 2005 and 31 December 2006 respectively.

## **2.2 Proposed Share Split**

The Proposed Share Split involves the subdivision of one (1) existing KNM Share into two (2) ordinary shares of RM0.25 each in KNM ("Subdivided KNM Shares").

For illustrative purposes, assuming the Proposed Share Split is implemented based on the issued and paid-up share capital of KNM as at 31 December 2006 of RM128,891,175 comprising 257,782,350 KNM Shares, the issued and paid-up share capital of KNM of RM128,891,175 will comprise 515,564,700 Subdivided KNM Shares.

On the other hand, if the Proposed Share Split is implemented after the full implementation of the Proposed Bonus Issue and the full exercise of the ESOS Options, the enlarged issued and paid-up share capital of KNM of RM263,451,140 comprising 526,902,280 KNM Shares will be RM263,451,140 comprising 1,053,804,560 Subdivided KNM Shares.

## **2.3 Ranking of new KNM shares**

The new KNM shares to be issued pursuant to the Proposed Bonus Issue and the Subdivided KNM Shares shall, upon allotment and issue, rank pari passu with the existing KNM Shares save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, unless the allotment of the Subdivided KNM Shares were made on or prior to the entitlement date of such dividends, rights, allotments and/or other distributions. Subject to the above, the Subdivided KNM Shares shall be entitled to participate in the Proposed Bonus Issue in the event the Proposed Bonus Issue is

implemented after the Proposed Share Split.

As a result of the Proposed Bonus Issue and the Proposed Share Split, adjustments will be made to the exercise prices and number of KNM Shares in relation to the ESOS Options.

### **3. RATIONALE OF THE PROPOSALS**

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 and the Proposed Share Split will also make the KNM shares more affordable and this is expected to increase the liquidity of the KNM shares on the Bursa Malaysia Securities Berhad ("Bursa Securities"). Further, the Proposed Bonus Issue and the Proposed Share Split will enable the existing shareholders of KNM to have a larger number of shares in KNM while maintaining their equity interest.

### **4. APPROVALS REQUIRED**

The Proposals are subject to approvals being obtained from the following:

- (i) The SC for the Proposed Share Split;
- (ii) The Bursa Securities for the following:
  - (a) the Proposed Share Split; and
  - (b) the listing of and quotation for the Subdivided KNM Shares arising from the Proposed Share Split and the Bonus Shares;
- (iii) The shareholders of KNM, for the Proposals and the Proposed M&A Amendments at an extraordinary general meeting to be convened.

The Proposed Bonus Issue and Proposed Share Split are not conditional on one another but the Proposed Share Split is conditional upon the Proposed M&A Amendments.

Barring any unforeseen circumstances and to the extent possible, the Company intends to implement the Proposed Bonus Issue and Proposed Share Split simultaneously. KNM expects to submit the applications to the relevant authorities within two months from the date of this announcements.

### **5. EFFECTS**

The financial effects of the Proposals on the share capital, net assets ("NA"), substantial shareholders' shareholdings, earnings, dividends and gearing based on the scenarios set out below, are as follows:-

Minimum Scenario: Assuming none of the Current Year Options are exercised prior to the Entitlement Date

Maximum Scenario: Assuming all the Current Year Options are fully exercised prior to the Entitlement Date

#### **5.1 Issued and Paid Up Share Capital**

The effects on the issued and paid-up share capital of KNM are set out in **Table 1**.

#### **5.2 NA and Gearing**

The proforma effects of the Proposals on the NA based on the audited consolidated financial statements of KNM as at 31 December 2005, are set out in **Table 2**.

#### **5.3 Substantial Shareholders' Shareholdings**

The Proposals will not have any effect on the percentage of shareholdings of the substantial shareholders of KNM. However, the number of KNM Shares held by each substantial shareholder will increase proportionately as a result of the Proposed Bonus Issue and Proposed Share Split.

#### **5.4 Earnings**

The Proposals are not expected to have any effect on the earnings of the KNM Group for the financial year ended 31 December 2007. However, the earnings per share of the KNM Group will correspondingly be decreased 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 Proposed Share Split.

#### **5.5 Dividends**

The Board had on 26 February 2007 recommended a final dividend of 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 for the financial year ended 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.

#### **5.6 Gearing**

The proforma effects of the Proposals on the gearing of KNM based on the audited consolidated financial statements of KNM as at 31 December 2005, are set out in **Table 2**.

### **6. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST**

To the best knowledge of the Directors and major shareholders of KNM, none of the Directors and/or major shareholders of KNM and/or persons connected to them have any interest, direct or indirect, in the Proposals other than that derived as shareholders of KNM.

### **7. DIRECTORS' STATEMENT**

The Board, after having considered all aspects of the Proposals is of the opinion that the Proposals is in the best interests of the KNM.

This announcement is dated 24 March 2007.



**TABLE 1****Effects on Issued and Paid-Up Share Capital**

<b>Issued and Paid-Up Share Capital</b>	<b>Minimum Scenario</b>		<b>Maximum Scenario</b>	
	<b>No. of Shares (‘000)</b>	<b>RM’000</b>	<b>No. of Shares (‘000)</b>	<b>RM’000</b>
Existing as at 31 December 2006	257,782	128,891	257,782	128,891
To be issued pursuant to exercise of Current Year Options	-	-	5,669	2,835
	257,782	128,891	263,451	131,726
To be issued pursuant to Proposed Bonus Issue	257,782	128,891	263,451	131,726
Issued and paid-up share capital after Proposed Bonus Issue	515,564	257,782	526,902	263,451
Issued and paid-up share capital after Proposed Share Split	1,031,128	257,782	1,053,804	263,451

**TABLE 2****Effects on NA and Gearing****Minimum Scenario**

	Audited As At 31 December 2005 RM'000	(I) Adjusted to incorporate actual issuance of Shares pursuant to ESOS, Private Placement and Bonus Issue (1) RM'000	(II) After (I) And Proposed Bonus Issue RM'000	(III) After (II) And Proposed Share Split RM'000
Share capital	74,806	128,891	257,782	257,782
Share premium	3,638	55,836	-	-
Retained profits	71,866	199,906	126,351	126,351
Revaluation & other Reserves	7,109	6,595	6,595	6,595
Shareholders' funds/ NA	157,419	391,228	390,728	390,728
Number of Shares	149,612	257,782	515,564	1,031,128
NA per Share (RM)	1.05	1.52	0.76	0.38
Total borrowings <sup>(6)</sup> (RM)	109,404	109,404	109,404	109,404
Gearing (times) <sup>(7)</sup>	0.69	0.28	0.28	0.28

*Notes:-*

- (1) *After taking into account actual issuance of shares pursuant to the following:*
- (i) *Exercise of 3.8 million ESOS options during financial year ended 31 December 2006,*
  - (ii) *Issuance of 7.671 million KNM Shares pursuant to a private placement exercise and*
  - (iii) *Issuance of 42.614 million KNM Shares pursuant to issuance of bonus shares credited as fully paid-up on the basis of one (1) new KNM Shares for every two (2) existing KNM Shares*
- (2) *After capitalisation of share premium and retained profits for the Proposed Bonus Issue and netting of expenses pursuant to the Proposals.*
- (3) *All interest-bearing debts as at 31 December 2005.*
- (4) *All interest-bearing debts over shareholders' equity.*

## Maximum Scenario

	<b>Audited As At 31 December 2005</b>	<b>(I) Adjusted to incorporate actual issuance of Shares pursuant to ESOS, Private Placement and Bonus Issue <sup>(1)</sup></b>	<b>(II) After (I) And Exercise Of Current Year Options <sup>(2)</sup></b>	<b>(III) After (I) And Proposed Bonus Issue <sup>(3)</sup></b>	<b>(IV) After (II) And Proposed Share Split</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Share capital	74,806	128,891	131,725	263,451	263,451
Share premium	3,638	55,836	59,752	-	-
Retained profits	71,866	199,906	199,906	127,432	127,432
Revaluation & other Reserves	7,109	6,595	6,595	6,595	6,595
<b>Shareholders' funds/ NA</b>	<b>157,419</b>	<b>391,228</b>	<b>397,978</b>	<b>397,478</b>	<b>397,478</b>
Number of Shares	149,612	257,782	263,451	526,902	1,053,804
NA per Share (RM)	1.05	1.52	1.51	0.75	0.38
Total borrowings <sup>(4)</sup>	109,404	109,404	109,404	109,404	109,404
Gearing (times) <sup>(5)</sup>	0.69	0.28	0.27	0.28	0.10

Notes:-

- (1) After taking into account actual issuance of shares pursuant to the following:
  - (i) Exercise of 3.8 million ESOS options during financial year ended 31 December 2006,
  - (ii) Issuance of 7.671 million KNM Shares pursuant to a private placement exercise and
  - (iii) Issuance of 42.614 million KNM Shares pursuant to issuance of bonus shares credited as fully paid-up on the basis of one (1) new KNM Shares for every two (2) existing KNM Shares
- (2) 4,921,410 ESOS Options are exercisable at RM1.08 per ESOS Option and 747,380 ESOS Options are exercise at RM1.92 per ESOS Option.
- (3) After capitalisation of share premium and retained profits for the Proposed Bonus Issue and netting of expenses pursuant to the Proposals.
- (4) All interest-bearing debts as at 31 December 2005.
- (5) All interest-bearing debts over shareholders' equity.