

Circular


Reference No **JM-080526-37627**

Company Name : **KNM GROUP BERHAD**

Stock Name : KNM

Date Announced : 26/05/2008

Subject : SHARE BUY BACK STATEMENT IN RELATION TO THE
PROPOSED RENEWAL OF AUTHORITY FOR THE PURCHASE
BY KNM OF ITS OWN ORDINARY SHARES

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THIS SHARE BUY BACK STATEMENT (“STATEMENT”) 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 shares in KNM Group Berhad (“KNM” or “Company”) you should at once hand this Statement together with the Company’s Annual Report 2007 to the agent through whom the sale or transfer was contracted, for onward transmission to the purchaser or transferee.

Bursa Malaysia Securities Berhad has not perused this Statement prior to its issuance and takes no responsibility for the contents of this Statement, 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 Statement.



KNM GROUP BERHAD

(Company No. 521348-H)

(Incorporated in Malaysia under the Companies Act, 1965)

SHARE BUY BACK STATEMENT

IN RELATION TO THE

PROPOSED RENEWAL OF AUTHORITY

FOR THE PURCHASE BY KNM OF ITS OWN ORDINARY SHARES

The Notice of the 6th Annual General Meeting of KNM to be held at the Unity Room, Lower Ground Level, Palace of the Golden Horses, MINES Resort City, Jalan Kuda Emas, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia at 10.00 a.m. on 17 June 2008 together with a form of proxy are enclosed with the 2007 Annual Report of KNM. The form of proxy must be completed and lodged at the registered office of KNM at 15, Jalan Dagang, SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia, not later than forty-eight (48) hours before the time set for the EGM or any adjournment thereof. The lodging of the Proxy Form will not preclude you from attending and voting in person at the AGM should you subsequently wish to do so.

This Statement is dated 26 May 2008

DEFINITIONS

For the purpose of this Circular, except where the context otherwise requires, the following definitions shall apply: -

Act	:	Companies Act, 1965 as amended from time to time
AGM	:	Annual General Meeting
Board	:	Board of Directors of KNM
Bursa Securities	:	Bursa Malaysia Securities Berhad
CDS	:	Central Depository System
Code	:	Malaysian Code on Take-overs and Mergers 1998, as amended from time to time
Director	:	A person falling within the meaning given in Section 4 of the Act
EGM	:	Extraordinary General Meeting of the Company held on 27 March 2008
EPS	:	Earnings per share
ESOS	:	Employees' Share Option Scheme
ESOS Options	:	Options to subscribe for new KNM Shares pursuant to the ESOS of KNM
FYE	:	Financial year ended
KNM or Company	:	KNM Group Berhad
KNM Group or Group	:	KNM and its subsidiaries as defined in Section 5 of the Act, collectively
KNM Share(s) or Share(s)	:	Ordinary shares of RM0.25 each in KNM
Listing Requirements	:	Listing Requirements of Bursa Securities, including any amendments, modifications and additions thereto and any Practice Notes issued in relation thereto
Major Shareholders	:	A person who has (which includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon) an interest or interests in one or more voting shares in the Company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is (a) equal to or more than 10% of the aggregate of the nominal amounts of all the voting shares in the Company; or (b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the Company where such person is the largest shareholder of the Company. For the purposes of this definition, "interest in shares" shall have the meaning given in Section 6A of the Act.
Mandate	:	Authority to the Company to purchase and/or hold up to 10% of its own issued and paid up share capital.

DEFINITIONS (*CONT'D*)

- Market Day** : Any day (excluding Saturdays, Sundays and public holidays in Malaysia) on which banks in Kuala Lumpur and Bursa Securities are open for business and trading of securities, respectively.
- NA** : Net assets.
- Proposed Renewal** : Proposed renewal of shareholders' mandate to purchase and/or to hold up to 10% of the Company's Shares.
- Purchased Shares** : Shares purchased pursuant to the Proposed Renewal.
- RM and sen** : Ringgit Malaysia and sen respectively.
- Shares** : Issued and paid up ordinary shares in KNM.
- Treasury Shares** : The Purchased Shares which are retained by the Company and shall have the meaning given under Section 67A of the Act.

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PROPOSED RENEWAL OF THE AUTHORITY TO ENABLE KNM TO PURCHASE UP TO 10% OF THE ISSUED AND PAID UP ORDINARY SHARE CAPITAL OF THE COMPANY (“PROPOSED RENEWAL”)

1. INTRODUCTION

The shareholders of KNM had at the EGM approved the Mandate. The Mandate became effectively immediately upon approval by shareholders at the Company's EGM and shall expire at the conclusion of the forthcoming 6th AGM of the Company, unless renewed by shareholders.

The Board had on 23 May 2008 announced to Bursa Securities that the Company intends to seek from its shareholders approval for the Proposed Renewal at the 6th AGM to be convened on 17 June 2008.

The purpose of this Statement is to provide you with the information on the Proposed Renewal and to seek your approval for the ordinary resolution pertaining to the Proposed Renewal to be tabled as a Special Business at the forthcoming AGM of the Company to be convened on 17 June 2008.

SHAREHOLDERS ARE ADVISED TO READ THE CONTENTS OF THIS STATEMENT CAREFULLY BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED RENEWAL.

2. DETAILS OF THE PROPOSED RENEWAL

2.1 KNM proposes to seek from its shareholders a renewal of the Mandate to purchase and hold up to 10% of its Shares on Bursa Securities. The Proposed Renewal is subject to compliance with Section 67A of the Act and any prevailing laws, orders, requirements, guidelines, rules and regulations issued by the relevant authorities (as may be amended, modified or re-enacted from time to time) at the time of purchase. The Proposed Renewal shall be affected through stockbroker(s) to be appointed by KNM solely for the purposes of purchasing the Shares and/or resale of the Treasury Shares.

The authority from shareholders for the Proposed Renewal will be effective immediately upon the passing of the ordinary resolution pertaining to the Proposed Renewal at the forthcoming 6th AGM until the conclusion of the next AGM of the Company or the expiry of the period within which the next EGM is required by law to be held, unless earlier revoked or varied by ordinary resolution of the shareholders of the Company in a general meeting.

2.2 Paragraph 12.10(1) of the Listing Requirements stipulates that purchases of own shares must be made out of retained profits and/or share premium account of the listed company. The Board proposed to allocate an amount of up to the retained profits and share premium account of the Company for the purchase of its own ordinary shares, subject to compliance with Section 67A of the Act and any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities at the time of the purchase including compliance with the twenty-five percent (25%) public shareholding spread as required by the Listing Requirements. The retained profits and share premium account of the Company were RM301,365,000.00 and RM571,000.00 respectively based on the latest audited financial statements for FYE 31 December 2007.

2.3 Section 67A of the Act allows the Company to cancel the purchased Shares or to hold the purchased Shares as treasury shares or a combination of both. The purchased Shares held as treasury shares may be distributed to the shareholders of the Company as share dividends, resold on Bursa Securities in accordance with the relevant rules of Bursa Securities, or subsequently cancelled. The decision whether to retain the purchased Shares and/or to resell the treasury shares and/or to distribute them as share dividends and/or to cancel them will be made by the Board

at the appropriate time. The distribution of treasury shares as share dividends may be applied as a reduction of the retained profits and/or share premium account of the Company subject to any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities at the time of the purchase.

While the purchased Shares are held as treasury shares, the rights attached to them as to voting, dividends and participation in any other distributions or otherwise are suspended and the treasury shares shall not be taken into account in calculating the number of percentage of shares or of a class of shares in the Company for any purposes including substantial shareholding, take-overs, notices, the requisitioning of meetings, the quorum for a meeting and the result of a vote on a resolution at a meeting.

- 2.4 Pursuant to the provisions of Paragraph 12.18 of the Listing Requirements, the Company may only purchase its own Shares at a price which is not more than fifteen percent (15%) above the weighted market price of KNM Shares for the past five (5) market days immediately preceding the date of the purchase.

Pursuant to the provisions of Paragraph 12.19 of the Listing Requirements, the Company may only resell the purchased Shares held as treasury shares at a price which is:-

- (a) not less than the weighted average market price of KNM Shares for the past 5 market days immediately preceding the date of resale; or
- (b) not less than 5% below the weighted average market price of KNM Shares for the past 5 market days immediately prior to the resale provided that:-
 - (i) the resale takes place no earlier than 30 days from the date of purchase; and
 - (ii) the resale price is not less than the cost of purchase of the Shares being sold.

- 2.5 The Proposed Renewal will allow the Board to exercise the power of the Company to purchase its own Shares at any time within the above-mentioned time period using the internal funds of the Company and/or external borrowings. The amount of internally generated funds and/or external borrowings to be utilised will only be determined later depending on the availability of funds, actual numbers of KNM Shares to be purchased and other cost factors. The actual number of KNM Shares to be purchased depends upon the market conditions and sentiments on Bursa Securities as well as the retained profits and share premium account and financial resources available to the Company. The treatment of the purchased Shares held as treasury shares, either distributed as share dividends or resold by the Company on Bursa Securities, or both, will in turn depend on the availability of, amongst others, retained profits, share premium account and tax credit (in relation to Section 108 tax credit of the Income Tax Act, 1967) of the Company.

In the event the Company purchases and holds its own Shares using external borrowings, the Board will ensure that the Company has sufficient funds to repay the external borrowings and that the repayment would not have any material effect on the cash flow of the Group.

3. RATIONALE FOR THE PROPOSED RENEWAL

The Proposed Renewal, if implemented, may potentially benefit the Company and its shareholders as follows:-

- (a) The Group is able to utilise its financial resources that it has no immediate use for to purchase KNM Shares when the price is deemed undervalued.
- (b) The Purchased Shares can be retained as Treasury Shares and resold on Bursa Securities at a higher price with the intention of realising potential gain without affecting

the total issued and paid-up share capital of the Company and/or be distributed as share dividend as a reward to its shareholders.

- (c) All things being equal, the Proposed Renewal, irrespective of whether the Purchased Shares are held as Treasury Shares or cancelled, will result in a lower number of KNM Shares being taken into account for the purpose of computing the EPS of KNM Shares. The purchase of KNM Shares by KNM will improve the EPS of KNM, which in turn is expected to have a positive impact on the share price of KNM Shares.

4. POTENTIAL DISADVANTAGES OF THE PROPOSED RENEWAL

The potential disadvantages of the Proposed Renewal, if implemented, are as follows:-

- (a) Reduce the financial resources of the Company and may result in the Group foregoing better investment opportunities that may emerge in the future; and
- (b) As the Proposed Renewal can only be made out of retained profits and share premium account, it may result in the reduction of financial resources available for distribution to the shareholders of the Company in the immediate future.

Nevertheless, the Board is mindful of the interests of the Company and its shareholders in undertaking the Proposed Renewal. The Proposed Renewal will be undertaken only after careful consideration of the financial resources of the KNM Group, and of the resultant impact on the Company and its shareholders.

5. EFFECTS OF THE PROPOSED RENEWAL

Assuming that the Company purchases KNM Shares representing approximately 10% of its issued and paid-up share capital and such Shares purchased are cancelled or alternatively be retained as treasury shares or both, the effects of the implementation of the Proposed Renewal on the share capital, NA, working capital, earnings, directors' and substantial shareholders' shareholdings, public shareholding spread and dividends are as follows:-

5.1 Share Capital

In the event that all the Purchased Shares are cancelled and on the assumption that the Proposed Renewal is undertaken in full, the proforma effects of the Proposed Renewal on the issued and paid-up share capital of KNM as at 2 May 2008, are set out as follows:-

	No. of KNM Shares	Amount (RM)
Issued and paid-up share capital as at 2 May 2008	1,054,260,800	263,565,200
Maximum number of KNM Shares that may be purchased pursuant to the Proposed Renewal	(105,426,080)*	(26,356,520)
Issued and paid-up share capital after the full implementation of the Proposed Renewal	948,834,720	237,208,680

* The Company has not purchased any Shares since the Mandate was procured at the EGM.

The Proposed Renewal will not have any effect on the share capital of the Group if the Purchased Shares are retained as Treasury Shares.

5.2 NA

Depending on the purchase price and number of Shares purchased, the Proposed Renewal will reduce the consolidated NA per Share at the time of purchase if the

purchase price exceeds the consolidated NA per Share and conversely will increase the consolidated NA per Share at the time of purchase if the purchase price is less than the consolidated NA per Share.

Should the Purchased Shares be resold, the consolidated NA per Share will increase if the Company realises a gain from the resale, and vice versa.

If the Treasury Shares are distributed as share dividends, the NA of the Group will decrease by the cost of the Treasury Shares.

5.3 Working Capital

The implementation of the Proposed Renewal is likely to reduce the working capital of the Group, the quantum being dependent on the number of Shares being purchased, the purchase price(s) and the amount of financial resources to be utilised for the purchase of Shares.

For the Purchased Shares which are retained as Treasury Shares, upon its resale, the working capital of the Company will increase. Again, the quantum of the increase in the working capital will depend on the actual selling price of the Treasury Shares resold.

5.4 Earnings

The effects of the Proposed Renewal on the consolidated earnings of KNM would depend on the purchase price and number of Shares purchased as well as the effective funding cost to the Company in implementing the Proposed Renewal. The reduction in the number of Shares applied in the computation of the consolidated EPS pursuant to the Proposed Renewal may generally, all else being equal, have a positive impact on the consolidated EPS for the financial year when the Proposed Renewal is implemented. Should the Purchased Shares be resold, the extent of the impact to the earnings of KNM Group will depend on the actual selling price, the number of Treasury Shares resold, the effective funding cost and the gain or loss on the disposal, if any.

5.5 Directors' and Substantial Shareholders' Shareholdings

The effects of the full implementation of the Proposed Renewal on the directors' and substantial shareholders' shareholdings based on the Registers of Director's Shareholdings and Substantial Shareholders' Shareholdings, respectively as at 2 May 2008 are set out as follows -

	Before the Proposed Renewal				After the Proposed Renewal			
	<---Direct--->		<---Indirect--->		<---Direct--->		<---Indirect--->	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Major Shareholders								
Inter Merger Sdn Bhd	257,740,364	24.45	23,947,636 ⁽²⁾	2.27	257,740,364	27.37	23,947,636 ⁽²⁾	2.52
Ir. Lee Swee Eng	11,910,000	1.13	281,688,000 ⁽¹⁾	26.72	11,910,000	1.25	281,688,000 ⁽¹⁾	29.68
Gan Siew Liat	1,320,000	0.13	281,688,000 ⁽¹⁾	26.72	1,320,000	0.13	281,688,000 ⁽¹⁾	29.68
Chew Fook Sin	2,220,800	0.21	281,688,000 ⁽¹⁾	26.72	2,220,800	0.23	281,688,000 ⁽¹⁾	29.68
Directors								
YBhg. Dato' Mohamad Idris bin Mansor	-	-	-	-	-	-	-	-
Ir. Lee Swee Eng	11,910,000	1.13	281,688,000 ⁽¹⁾	26.72	11,910,000	1.25	281,688,000 ⁽¹⁾	29.68
Lim Yu Tey	1,050,000	0.10	-	-	1,050,000	0.11	-	-
YBhg. Dato' Abdul Halim bin Mohyiddin	1,400,000	0.13	-	-	1,200,000	0.12	-	-
Lee Hui Leong	-	-	23,947,636 ⁽²⁾	2.27	-	-	23,947,636 ⁽²⁾	2.52
Gan Siew Liat	1,320,000	0.13	281,688,000 ⁽¹⁾	26.72	1,320,000	0.13	281,688,000 ⁽¹⁾	29.68
Chew Fook Sin	2,220,800	0.21	281,688,000 ⁽¹⁾	26.72	2,220,800	0.23	281,688,000 ⁽¹⁾	29.68
Ng Boon Su	-	-	-	-	-	-	-	-

Notes:-

(1) Deemed interested through Inter Merger Sdn Bhd.

(2) Held via Tegas Klasik Sdn Bhd

5.6 Public Shareholding Spread

According to the Record of Depositors maintained by Bursa Malaysia Depository Sdn Bhd and based on the substantial shareholders' filing with the Company, the public shareholding spread of the Company as at 2 May 2008 was 71.64%. The proforma public shareholding spread of the Company would be reduced to 68.67% assuming that the Company implements in full the Proposed Renewal and that the Shares are bought back entirely from public shareholders.

The Board is mindful of the requirement to maintain the public shareholdings spread of at least 25% and will continue to be mindful of the requirement when making purchases of any KNM Shares pursuant to the Proposed Renewal.

5.7 Dividends

Barring any unforeseen circumstances, the Board does not expect the Proposed Renewal to materially affect any declaration or recommendation of dividends by the Company. The actual dividend rate to be declared and paid will depend on, among others, the actual results of our Group, its cash reserves, capital commitment and future funding requirements.

For the financial year ended 31 December 2007, the Company paid an interim dividend of 4 sen per ordinary shares of RM0.25 less income tax of 27%.

6. IMPLICATION RELATING TO THE CODE

The Proposed Renewal is not expected to trigger any obligation to undertake a mandatory general offer under the Code as a result of its full implementation.

7. APPROVALS REQUIRED

The Proposed Renewal is conditional upon the approval from the shareholders of KNM at the forthcoming 6th AGM.

8. PURCHASE, RESALE AND CANCELLATION OF KNM SHARES MADE IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

The Company has not purchased any Shares as the Mandate was procured at the EGM.

9. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save for the inadvertent increase in percentage of shareholding and/or voting rights of shareholders of the Company as a result of the Proposed Renewal, none of the directors, substantial shareholders of KNM and/or persons connected to them have any interest, direct or indirect, in the Proposed Renewal or the resale of treasury shares.

10. DIRECTORS' RECOMMENDATION

After careful consideration, your Board is of the opinion that the Proposed Renewal is in the best interest of the Company. Accordingly, your Board recommends that you vote in favour of the ordinary resolution for the Proposed Renewal to be tabled at the forthcoming 6th AGM.