

General Announcement

Reference No **KG-050524-66012**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
Date Announced : **24/05/2005**
Type : **Announcement**
Subject : **Memorandum of Understanding**

Contents :

1. Introduction

The Board of Directors of KNM Group Berhad (**Company**) is pleased to announce that KNM Overseas (China) Sdn Bhd (**KNMOC**), an indirect wholly-owned subsidiary of the Company entered into a Memorandum of Understanding (**MOU**) on 24 May 2005 with the Changshu Administrative Committee of Economic Development Zone of Jiangsu Province, People's Republic of China (**CEDZ**) to increase its investment in KNM Special Process Equipment (Changshu) Co Ltd, of Xinghua Gangqu, Changshu City, 215513, Jiangsu Province, People's Republic of China (**KNMSPEC**), a wholly-owned subsidiary of KNMOC, by acquiring a piece of land measuring approximately 8 acres (**Phase 2**) to cater to the expansion in the operations of KNMSPEC.

Phase 2 will be located adjacent to the Group's existing manufacturing facility in Changshu, in the Jiangsu Province, Changshu Economic Development Area, People's Republic of China.

2. Salient terms of the MOU

(i) Investment by KNMOC in KNMSPEC

KNMOC shall complete the application for an increase in investment for Phase 2 (**Investment Increase**) in accordance with the rules and regulations of the CEDZ by 31 December 2005, or such later date as agreed by the parties, as follows -

(a) Registered capital -
USD8,140,000-00, from USD3,100,000-00.

(b) Aggregate investment -
USD18,800,000-00, from USD6,200,000-00..

(ii) Acquisition and construction -

Subject to the approval of the Investment Increase by the relevant authorities, KNMOC shall –

(a) complete the acquisition of Phase 2 within 1 year from the date of

the Memorandum of Understanding, or such later date as agreed by the Parties; and

(b) commence preparations for the construction of a manufacturing facility on Phase 2 within 2 years from the date of receipt by KNMSPEC of the business licence to incorporate the Investment Increase, or such later date as agreed by the Parties.

Other terms and conditions are subject to further agreement between the parties.

3. Rationale for the JVA

The acquisition of Phase 2 will enhance the overall business and earnings potential of the Company's operations in China and enable the Company to benefit from the robust oil, gas and petrochemical industries in China.

4. Information on KNMOC

KNMOC is an investment holding company.

5. Information on KNMSPEC

KNMSPEC is a process equipment manufacturer and storage facilities provider with the capability to undertake the designing, manufacturing, fabricating, construction, assembly, commission and maintenance of process equipment, mounded bullets, pressure vessels, heat exchangers, skid mounded assemblies, process piping systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.

6. Information on CEDZ

The CEDZ, which is governed by an administrative committee, is located in the Jiangshu Province. Changshu is a city located in east China.

The CEDZ covers an area of approximately 1,264 square metres and a population of 1.04 million.

Additional information on CEDZ may be obtained at its website at <http://www.cedz.org>.

7. Approvals

Save and except for the approval of Bank Negara Malaysia for investments abroad, the MOU is not subject to the approval of the shareholders of KNMOC or CEDZ, or the approval of any regulatory authority in Malaysia.

8. Directors' and major shareholders' interest

None of the directors or substantial shareholders of the Company, or any persons connected to them, has any direct or indirect interest in the MOU.

9. Directors' opinion

The Board of Directors of the Company, after taking into consideration the rationale of this transaction is of the opinion that this transaction is in the best interest of the Company.

10. Effects of the MOU

The JVA will have no material impact on the Company's earnings, net tangible assets, share capital and substantial shareholdings structure for the year ending 31 December 2005.

This announcement is dated 24 May 2005.