

KNM GROUP BERHAD

(Company No:521348-H)
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 March 2007 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 31.3.2007 RM'000	3 months ended 31.3.2006 RM'000	31.3.2007 RM'000	31.3.2006 RM'000
Contract revenue		<u>262,223</u>	<u>174,340</u>	<u>262,223</u>	<u>174,340</u>
Operating profit		46,211	28,420	46,211	28,420
Financing costs		(1,482)	(1,024)	(1,482)	(1,024)
Interest income		132	81	132	81
Negative goodwill		-	179	-	179
Share of profit of jointly controlled entity		-	817	-	817
Profit before tax		<u>44,861</u>	<u>28,473</u>	<u>44,861</u>	<u>28,473</u>
Tax expense		(5,365)	(7,697)	(5,365)	(7,697)
Net profit for the period		<u>39,496</u>	<u>20,776</u>	<u>39,496</u>	<u>20,776</u>
Attributable to:					
Equity holders of the parent		38,318	19,806	38,318	19,806
Minority interest		<u>1,178</u>	<u>970</u>	<u>1,178</u>	<u>970</u>
		<u>39,496</u>	<u>20,776</u>	<u>39,496</u>	<u>20,776</u>
Earnings per share:					
- Basic (sen)		14.84	8.42	14.84	8.42
- Diluted (sen)		14.37	8.19	14.37	8.19

The notes set out on pages 5 to 14 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

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(Incorporated in Malaysia)

2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	NOTE	As at 31.3.2007	As at 31.12.2006
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets		4,233	4,233
Property, plant and equipment		399,668	393,955
Other investment		2,349	2,374
Prepaid lease payments		11,512	11,569
Deferred Tax Asset		48,536	49,087
		<u>466,298</u>	<u>461,218</u>
Current assets			
Inventories		29,247	24,756
Contracts work in progress		324,475	211,029
Trade and other receivables		185,118	227,467
Cash and cash equivalents		99,759	91,225
		<u>638,599</u>	<u>554,477</u>
TOTAL ASSETS		<u>1,104,897</u>	<u>1,015,695</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		129,242	128,891
Reserves		297,841	261,439
		<u>427,083</u>	<u>390,330</u>
Minority interest		15,951	14,702
Total Equity		<u>443,034</u>	<u>405,032</u>
Non-current liabilities			
Long term payable		22,855	28,677
Long service leave liability		2,570	2,535
Borrowings	B9	41,319	42,948
Deferred taxation		57,016	56,365
		<u>123,760</u>	<u>130,525</u>
Current liabilities			
Payables and accruals		328,339	295,257
Customers advance for contract work in progress		2,649	377
Borrowings	B9	181,580	156,575
Current tax liabilities		25,535	27,929
		<u>538,103</u>	<u>480,138</u>
Total liabilities		<u>661,863</u>	<u>610,663</u>
TOTAL EQUITY AND LIABILITIES		<u>1,104,897</u>	<u>1,015,695</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.65</u>	<u>1.51</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD

ENDED 31 March 2007

(Unaudited)

	← Attributable to equity holders of the parent →							Minority Interest RM'000	Total equity RM'000
	No. of Shares 000	Share Capital RM'000	← Non-Distributable →		Distributable Reserve (Accumulated Loss) / Retained Profit RM'000		Total RM'000		
Share Premium RM'000			Revaluation and Other Reserve RM'000						
As at 1 January 2006	149,612	74,806	3,638	7,109	71,866	157,419	-	157,419	
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	9,107	9,107	
Issue of shares pursuant to:									
- ESOS	7,600	3,800	12,501	-	-	16,301	-	16,301	
- Private Placement	15,342	7,671	84,382	-	-	92,053	-	92,053	
- Bonus issue	85,228	42,614	(42,614)	-	-	-	-	-	
Currency translation differences arising in the period	-	-	-	(897)	-	(897)	(88)	(985)	
Expenses not recognised in income statement									
- Listing expenses	-	-	(2,070)	-	-	(2,070)	-	(2,070)	
Share-based payments	-	-	-	541	-	541	-	541	
Net Profit for the year	-	-	-	-	132,506	132,506	5,683	138,189	
Dividend paid	-	-	-	-	(5,523)	(5,523)	-	(5,523)	
As at 31 December 2006	257,782	128,891	55,837	6,753	198,849	390,330	14,702	405,032	
Issue of shares pursuant to:									
- ESOS	701	351	657	-	-	1,008	-	1,008	
Transfer to share premium for share options exercised			111	(111)	-	-	-	-	
Expenses not recognised in income statement									
-Share issue expenses	-	-	(16)	-	-	(16)	-	(16)	
Currency translation differences arising in the period	-	-	-	(2,557)	-	(2,557)	71	(2,486)	
Net Profit for the period	-	-	-	-	38,318	38,318	1,178	39,496	
As at 31 March 2007	258,483	129,242	56,589	4,085	237,167	427,083	15,951	443,034	

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 March 2007

(Unaudited)

	31.3.2007	31.12.2006
	RM	RM
	'000	'000
Net cash (used in)/generated from operating activities	(231)	(34,318)
Net cash used in investing activities	(14,459)	(18,934)
Net cash generated from /(used in) financing activities	20,360	95,652
Net increase in cash and cash equivalents	5,670	42,400
Cash and cash equivalents at beginning of year	58,049	15,649
Cash and cash equivalents at end of year	<u>63,719</u>	<u>58,049</u>
Cash & bank balances	59,502	63,693
Deposits with financial institutions	10,708	6,740
Deposits with licensed banks	29,549	20,792
	<u>99,759</u>	<u>91,225</u>
Deposit pledged to licensed bank	(19,244)	(19,244)
	<u>80,515</u>	<u>71,981</u>
Bank overdraft	(16,796)	(13,932)
	<u>63,719</u>	<u>58,049</u>

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Notes to the quarterly Interim Financial Report – 31 March 2007

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2006.

A2. CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2006 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2007:

FRS 124	Related Party Disclosures
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The Group has not adopted FRS 139 Financial Instruments: Recognition and Measurement as its effective date has been deferred.

The adoption of the abovementioned FRSS does not result in significant changes in accounting policies of the Company.

A3. Qualification of annual financial statements

There were no audit qualifications on the annual financial statements of the Company for the year ended 31 December 2006.

A4. Seasonal and cyclical factors

The Group’s business operation results were not materially affected by any major seasonal or cyclical factors.

A5. Unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows

There were no unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows for the current quarter and financial year to date.

A6. Material changes in estimates

There were no material changes in estimates of amount reported in the current quarter.

A7. Issuances and repayment of debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial year to date other than those stated below:

	RM'000
Balance of ICP outstanding as at 1 January 2007	108,000
ICP withdrawn	<u>22,000</u>
Balance of ICP outstanding as at 31 March 2007	<u><u>130,000</u></u>

As at 31 March 2007, the amount outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) was RM130.0 million out of the limit of RM300.0 million, mainly used for repayment of bank borrowings, finance capital expenditure and working capital. The entire RM300.0 million ICP/IMTN facility is fully underwritten by Amanah Short Deposits Berhad and has a tenure of 7-years from the date of issuance.

Options relating to 15,127,200 and 5,034,080 ordinary shares of RM0.50 each were granted to eligible employees at an option price of RM1.08 and RM1.92 per share with expiry date of 24 August 2009 pursuant to the Company’s Employees’ Share Option Scheme (ESOS). At the date of this report, 761,600 shares were exercised and 29,825 share options were lapsed primarily due to staff resignation. After taking into account these new shares allotted, the issued and paid up capital of the Company was increased to 259,023,150 and total number of unexercised share options as at date of report was 8,840,200.

A8. Dividend Paid

No dividend was declared or paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result :-

Business Segment:	Revenue	Operating Profit
	3 months ended	3 months ended
	31.3.2007	31.3.2007
	RM'000	RM'000
Process equipment	262,216	46,206
Others	<u>7</u>	<u>5</u>
	<u><u>262,223</u></u>	<u><u>46,211</u></u>

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Geographical segments:	Revenue	Operating Profit
	3 months ended 31.3.2007 RM'000	3 months ended 31.3.2007 RM'000
Malaysia	144,991	33,253
Overseas	117,232	12,958
Total	262,223	46,211

A10. Valuation of property, plant and equipment

Property, plant and equipment of the Group is stated at cost/valuation less accumulated depreciation and accumulated impairment losses where applicable.

There is no revaluation of property, plant and equipment during the period under review.

A11. Material events subsequent to the end of the interim period

There was no material event subsequent to the end of the reporting period and up to the date of issuance of this report other than those disclosed under item no. B8.

A12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial year to date under than those disclosed in item no. B8.

A13. Changes in contingent liabilities

There were no material changes in contingent liabilities for the Group as at the date of this announcement.

A14. Capital commitments

	Approved and contracted for RM'000	Approved but not contracted for RM'000
Property, plant and equipment	32,102	195,796
Investment	-	63,694
	<u>32,102</u>	<u>259,490</u>

A15. Related party transactions

Significant related party transactions for the financial year to date are as follows:

	RM '000
Inter Merger Sdn Bhd *	
- Office rental, related charges and administrative expense	469

** a company in which,
Mr.Lee Swee Eng and Gan Siew Liat are directors*

I.M.Bina Sdn Bhd **	
-General construction and civil works	7,075

Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	66

*** a company in which Inter Merger Sdn Bhd is a holding company*

Hamilton Drive Properties Pty Limited ***	
-Rental of land for manufacturing facility	180

**** a company in which Mr John Kenneth Rundell is a director*

PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of performance

The Group achieved a revenue of RM262.22 million and profit before tax and minority interest of RM44.86 million for the current period ended 31 March 2007. The revenue increased mainly due to the additional manufacturing capacity and job orders secured.

B2. Variation of results against preceding quarter

The Group's revenue of RM262.22 million and net profit before taxation and minority interest of RM44.86 million for the first quarter ended 31 March 2007 were higher by 2.32% and 116.40% compared to fourth quarter's revenue of RM256.28 million and net profit before taxation and minority interest of RM20.73 million respectively. The increase in net profit before tax was mainly due to higher revenue recognised and better operating margin for the period.

B3. Current year prospects

The Board is confident that the Group's results for the financial year ending 31 December 2007 will exceed the financial performance of the Group for financial year ended 31 December 2006.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	3 months ended 31.3.2007 RM'000	3 months ended 31.3.2006 RM'000
Income Tax expense :-		
Current	4,185	7,662
Deferred tax	1,180	35
	<u>5,365</u>	<u>7,697</u>

The Group's effective tax rate is lower than the statutory tax rate mainly due to the availability of certain tax incentives.

B6. Unquoted investments and properties

The Group has not made or disposed any investments in any unquoted investments and properties for the current quarter and financial year to date.

B7. Quoted and marketable investments

There were no investments or disposals in quoted and marketable securities during the current quarter and financial year to date.

B8. Status of corporate proposals announced

(1) Proposed bonus issue and share split

KNM Group Berhad had on 27 April 2007 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 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").

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.

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.

Barring any unforeseen circumstances and to the extent possible, the Company intends to implement the Proposed Bonus Issue and Proposed Share Split simultaneously.

- (2) KNM Group Berhad had on 12 April 2007 announced that KNM International Sdn Bhd (KNMI), a wholly owned subsidiary of the Company had on 12 April 2007 entered into a Joint Venture and Shareholder Agreement (JVA) with Themar Aqaria Ltd Co, a company based in Saudi Arabia, to design, manufacture, fabricate, construct, assemble, commission and maintain process equipment for the oil, gas and petrochemicals industries.

KNMI and Themar shall incorporate and subscribe for shares in a joint venture company (JVC) which will undertake the Business. The JVC shall be known as Saudi KNM Ltd, or such other name approved by KNMI and the relevant authority in Saudi Arabia.

51% equity interest in the JVC will be held by KNMI (KNMI Shares) and 49% equity interest will be held by Themar.

- (3) KNM Group Berhad had on 30 March 2007 announced that KNM Renewable Energy, a wholly-owned subsidiary of the Company had on 30 March 2007 acquired the entire issued and paid up shares in Kosmo Sawit Sdn Bhd (Kosmo Sawit) for a cash consideration of Ringgit Malaysia (RM)2.00.

Kosmo Sawit is the intended company that will undertake the joint venture effort between KNM and Crown Iron Works Company, USA (Crown) to provide process technology for the biofuels and seeds extraction plants and of turnkey services, including operation and maintenance services for biofuels and seeds extraction plants.

Kosmo Sawit has been subsequently renamed KNM-CIW Sdn Bhd.

- (4) KNM Group Berhad had on 30 March 2007 announced that KNM Process Systems Sdn Bhd (KNMPS), a wholly-owned subsidiary of the Company had on 30 March 2007 acquired the entire issued and paid up shares in KNM Industries Boilers Sdn Bhd (formerly known as KNM Macchi Boilers Sdn Bhd) (KNMIB) for a cash consideration of Ringgit Malaysia (RM)2.00.

Shareholder Agreement between KNM Renewable Energy Sdn Bhd and Crown Iron Works Company

KNM Group Berhad had on 8 February 2007 acquired the entire issued and paid up shares in KNM Renewable Energy Sdn Bhd (KNMRE) (formerly known as Prima Agrimate Sdn Bhd) for a cash consideration of Ringgit Malaysia RM2.00. KNMRE was incorporated on 4 October 2006 and has not commenced operations since its date of incorporation.

On 9 February 2007, KNM Renewable Energy Sdn Bhd (KNMRE), a wholly owned subsidiary of KNM Group Berhad had on 9 February 2007 entered into an exclusive Shareholders Agreement (SA) with Crown Iron Works Company (Crown), a company based in Delaware, United States of America in respect of the marketing, advertising, promotion, tendering and sale of engineering procurement construction and commissioning (EPCC) basis for biodiesel, oleochemicals, refining and solvent extraction plants.

KNMRE and Crown will incorporate and subscribe for shares in a joint venture company (JVC) which will undertake the intended business activities above 60% equity interest in JVC will be held by KNMRE and 40% equity interest will be held by Crown. The JVC's issued and paid up share capital shall be RM500,000 and the board of directors of JVC shall comprise of 3 directors nominated by KNMRE and 2 directors nominated by Crown.

- (5) **Proposed Acquisition by KNM Process Systems Sdn Bhd ("KNMPS"), A wholly-owned subsidiary of KNM of 49% (Less One (1) Share) Equity interest in KNM PTY LTD ("KPL") ("Proposed Acquisition")**

KNM Process Systems Sdn Bhd (KNMPS), had on 27 November 2006 entered into a share purchase agreement ("SPA") with Process Heat Transfer Pty Ltd ("KPL Vendor" or "PHT") and shareholders of PHT to acquire 49% (less one(1) share) equity interest in KPL comprising 2,107,000 fully paid-up ordinary shares for a cash consideration of Australian Dollars ("AUD")5,445,000 ("Cash consideration"), which is equivalent to RM15,409,350 (based on an exchange rate of RM2.83:AUD1.00).

On 30 April 2007, KNMPS entered into an Amendment Agreement (AA) to amend certain terms and conditions of the SPA.

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The Proposed acquisition was completed on 4 May 2007, in accordance with the terms and conditions of the share purchase agreement dated 27 November 2006 and the amendment agreement dated 30 April 2007.

- (6) KNM had on 30 May 2006 entered into a Memorandum of Agreement (“MOA”) with Sofinter setting out the commercial terms by which the parties propose to enter into joint ventures in respect of the Boiler Business which will involve the incorporation of a joint venture company in Malaysia (“MJVCO”) and a joint venture company in China (“CJVCO”).

The Joint Venture Agreement for Proposed Joint Venture is being finalized. The JVCO in China is in the midst of incorporation. The parties are actively promoting the business including submitting tender.

- (7) KNM entered into a memorandum of agreement with the shareholders of Virgo Pulse Sdn Bhd (“VPSB”) on 5 July 2006 with an intention to acquire 90% equity interest in VPSB comprising 9,000 ordinary shares of RM1.00 each (“Sale Shares”) for a cash consideration of RM27,500,000.

The Company had on 24 April 2007 announced that as the Company and the vendors are unable to conclude discussion on the MOA, the MOA is now lapsed.

B9. Group borrowings and debt securities

The Group’s borrowings as at the end of the reporting period were as follows:

	RM ‘000
Short term:	
Borrowings (secured)	34,081
ICP	130,000
Bank Overdraft	16,796
Hire purchase liabilities	703
	<u>181,580</u>
Long term :	
Borrowings (secured)	39,500
Hire purchases liabilities	1,819
	<u>41,319</u>

The above inclusive of borrowing in foreign currency of RMB25.21 million and EURO13.31 million.

The Exchange rates used are 1 RMB = RM 0.4480, and 1 EURO = RM4.6122

B10. Off balance sheet financial instrument

There was no material financial instrument with off balance sheet risk as at the end of the period under review other than the following.

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Forward foreign exchange contracts expiring within one (1) year :-

Currency	Contract Amount '000	Equivalent Amount in RM'000
USD	94,571	335,038
GBP	340	2,336
EURO	21,249	98,188
SGD	1,512	3,488
AUD	6,748	18,503
JPY	3,082,012	94,043
		551,596

As forward foreign exchange contracts are entered into to hedge the Group's purchases in foreign currencies, the contracted rates would be used to convert the foreign currency amounts into Ringgit Malaysia. This method of hedging mitigates the Group from currency risks such that the values of the underlying liabilities or assets are preserved.

There are no significant credit and market risks posed by the above off balance sheet financial instruments.

B11. Changes in material litigation

As at the date of this announcement, there were no changes in material litigation since the last annual balance sheet date.

B12. Dividend payable

There was no dividend declared or recommended during quarter under review other than that recommended in the previous quarter.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	38,318	19,806	38,318	19,806
Number of shares at the beginning of the period ('000)	257,782	149,612	257,782	149,612
Effect of ESOS ('000)	497	322	497	322
Effect of Bonus issue issue ('000)	-	85,228	-	85,228
Weighted average number of shares ('000)	258,279	235,162	258,279	235,162

KNM GROUP BERHAD
(Company No: 521348-H)

	Individual Quarter		Cumulative Quarter	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Basic earnings per share (sen)	14.84	8.42	14.84	8.42
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	38,318	19,806	38,318	19,806
Weighted average number of shares as per above ('000)	258,279	235,162	258,279	235,162
Number of shares under ESOS ('000)	9,380	10,816	9,380	10,816
Number of shares would have been issued at fair value('000)	(1,004)	(4,247)	(1,004)	(4,247)
Weighted average number of shares - diluted ('000)	266,655	241,731	266,655	241,731
Fully diluted earnings per share (sen)	14.37	8.19	14.37	8.19

The comparative basic and diluted earnings per share have been restated to take into account the effects of bonus issue.

B14. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a Board of Directors meeting on 25 May 2007.