

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 June 2007 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 30.6.2007 RM'000	3 months ended 30.6.2006 RM'000	30.6.2007 RM'000	30.6.2006 RM'000
Contract revenue		<u>262,796</u>	<u>234,893</u>	<u>525,019</u>	<u>409,233</u>
Operating profit		37,182	36,120	83,393	64,540
Financing costs		(2,849)	(4,295)	(4,332)	(5,319)
Interest income		313	156	445	238
(Goodwill written off)/Negative goodwill		(1,050)	33,738	(1,050)	33,917
Share of profit of jointly controlled entity		-	(817)	-	-
Profit before tax		<u>33,596</u>	<u>64,902</u>	<u>78,456</u>	<u>93,376</u>
Tax expense		1,746	(6,087)	(3,620)	(13,784)
Net profit for the period		<u>35,342</u>	<u>58,815</u>	<u>74,836</u>	<u>79,592</u>
Attributable to:					
Equity holders of the parent		37,075	59,417	75,391	79,224
Minority interest		<u>(1,733)</u>	<u>(602)</u>	<u>(555)</u>	<u>368</u>
		<u>35,342</u>	<u>58,815</u>	<u>74,836</u>	<u>79,592</u>
Earnings per share:					
- Basic (sen)		14.34	25.18	29.16	33.57
- Diluted (sen)		13.91	24.48	28.29	32.64

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

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2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	NOTE	As at 30.6.2007	As at 31.12.2006
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets		5,522	4,233
Property, plant and equipment		410,890	393,955
Other investment		2,373	2,374
Prepaid lease payments		11,537	11,569
Deferred Tax Asset		48,328	49,087
		<u>478,650</u>	<u>461,218</u>
Current assets			
Inventories		43,117	24,756
Contracts work in progress		247,808	211,029
Trade and other receivables		214,100	227,467
Cash and cash equivalents		116,172	91,225
		<u>621,197</u>	<u>554,477</u>
TOTAL ASSETS		<u>1,099,847</u>	<u>1,015,695</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		129,523	128,891
Reserves		337,366	261,439
		<u>466,889</u>	<u>390,330</u>
Minority interest		176	14,702
Total Equity		<u>467,065</u>	<u>405,032</u>
Non-current liabilities			
Long term payable		23,688	28,677
Long service leave liability		2,665	2,535
Borrowings	B9	46,463	42,948
Deferred taxation		56,808	56,365
		<u>129,624</u>	<u>130,525</u>
Current liabilities			
Payables and accruals		251,923	295,257
Customers advance for contract work in progress		17,367	377
Borrowings	B9	210,499	156,575
Current tax liabilities		23,369	27,929
		<u>503,158</u>	<u>480,138</u>
Total liabilities		<u>632,782</u>	<u>610,663</u>
TOTAL EQUITY AND LIABILITIES		<u>1,099,847</u>	<u>1,015,695</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.80</u>	<u>1.51</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
ENDED 30 June 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			
Share Premium RM'000			Revaluation and Other Reserve RM'000	Retained Profit RM'000	(Accumulated Loss) / Total 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
Acquisition of minority interest	-	-	-	-	-	-	(14,433)	(14,433)
Issue of shares pursuant to:								
- ESOS	1,264	632	1,061	-	-	1,693	-	1,693
Transfer to share premium for share options exercised	-	-	180	(180)	-	-	-	-
Expenses not recognised in income statement								
- Share issue expenses	-	-	(132)	-	-	(132)	-	(132)
Share-based payments	-	-	-	63	-	63	-	63
Currency translation differences arising in the period	-	-	-	(456)	-	(456)	462	6
Net Profit for the period	-	-	-	-	75,391	75,391	(555)	74,836
As at 30 June 2007	259,046	129,523	56,946	6,180	274,240	466,889	176	467,065

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD END 30 June 2007 (Unaudited)

	30.6.2007	31.12.2006
	RM	RM
	'000	'000
Net cash (used in)/generated from operating activities	13,070	(34,318)
Net cash used in investing activities	(44,308)	(18,934)
Net cash generated from /(used in) financing activities	56,723	95,652
Net increase in cash and cash equivalents	<u>25,485</u>	<u>42,400</u>
Cash and cash equivalents at beginning of period/year	58,049	15,649
Cash and cash equivalents at end of period/year	<u><u>83,534</u></u>	<u><u>58,049</u></u>
Cash & bank balances	67,700	63,693
Deposits with financial institutions	8,515	6,740
Deposits with licensed banks	<u>39,957</u>	<u>20,792</u>
	116,172	91,225
Deposit pledged to licensed bank	<u>(19,244)</u>	<u>(19,244)</u>
	96,928	71,981
Bank overdraft	<u>(13,394)</u>	<u>(13,932)</u>
	<u><u>83,534</u></u>	<u><u>58,049</u></u>

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Notes to the quarterly Interim Financial Report – 30 June 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/IMTN outstanding as at 1 January 2007	108,000
ICP/IMTN withdrawn	<u>77,000</u>
Balance of ICP/IMTN outstanding as at 30 June 2007	<u><u>185,000</u></u>

As at 30 June 2007, the amount outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) was RM185.0 million out of the limit of RM300.0 million, mainly used for repayment of bank borrowings, and working capital. Up to RM150 million is fully underwritten by Malayan Banking Berhad & AMInvestment Bank 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, 1,108,100 shares were exercised and 59,735 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 259,582,950 and total number of unexercised share options as at date of report was 8,250,490.

At the date of the report, the issued and paid up share capital was increased by the issuance of :

- (i) Bonus issue of 259,045,950 new ordinary shares of RM0.50 each in KNM to be credited as fully paid-up on the basis of one (1) new ordinary share of RM0.50 each in KNM (“Bonus Shares”) for every one (1) existing ordinary share of RM0.50 in KNM held (“Bonus Issue”); and
- (ii) Share split involving the subdivision of each of the ordinary shares of RM0.50 each in KNM into two (2) ordinary shares of RM0.25 each in KNM (“Subdivided KNM Shares”) after the Bonus Issue.

After take into account Bonus Issue and Share split, the issued and paid up share capital of the Company was increased from 259,045,950 of RM0.50 each to 1,036,720,800 of RM0.25 each.

A8. Dividend Paid

The final dividend of approximately 5 sen per ordinary share tax exempt totaling RM12,952,000 in respect of previous financial year ended 31 December 2006 was paid on 1 August 2007.

A9. Segment information

Segmental analysis of the revenue and result :-

Business Segment:	Revenue	Operating Profit
	6 months ended 30.6.2007 RM'000	6 months ended 30.6.2007 RM'000
Process equipment	525,012	83,388
Others	7	5
	<hr/> 525,019	<hr/> 83,393

Geographical segments:	Revenue	Operating Profit
	6 months ended 30.6.2007 RM'000	6 months ended 30.6.2007 RM'000
Malaysia	300,212	65,015
Overseas	224,807	18,378
Total	<hr/> 525,019	<hr/> 83,393

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

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	Approved and contracted for RM'000	Approved but not contracted for RM'000
Property, plant and equipment	46,378	246,464
Investment	-	43,925
	<u>46,378</u>	<u>290,389</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	937
* a company in which, Mr.Lee Swee Eng and Gan Siew Liat are directors	
I.M.Bina Sdn Bhd **	
-General construction and civil works	7,468
Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	80
** a company in which Inter Merger Sdn Bhd is a holding company	
Hamilton Drive Properties Pty Limited ***	
-Rental of land for manufacturing facility	245
*** 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 RM525.02 million and profit before tax and minority interest of RM78.46 million for the current period ended 30 June 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 RM262.80 million and net profit after taxation and minority interest of RM38.13 million for the second quarter ended 30 June 2007 were comparable to first quarter's revenue of RM262.22 million and net profit after taxation and minority interest of RM38.32 million respectively.

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

	6 months ended 30.6.2007 RM'000	6 months ended 30.6.2006 RM'000
Income Tax expense :-		
Current	5,988	13,784
Prior period	(3,568)	-
Deferred tax	1,200	-
	<u>3,620</u>	<u>13,784</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) KNM International Sdn Bhd (**KNMI**), a wholly-owned subsidiary of the Company, incorporated PT KPE Industries in Batam, Indonesia with an authorized share capital of 5,000 shares of United States Dollar (USD)100.00 each. KNMI subscribed for 4,999 shares in PT KPE. The balance 1 share was subscribed by KNM Process Systems Sdn Bhd (**KNMPS**), a wholly-owned subsidiary of KNM.
- (2) KNM Group Berhad had on 25 May 2007 announced that KNM Process Systems Sdn Bhd (**KNMPS**) entered into a Supplier Agreement with Flour Procurement International LLC (**FPI**) of Texas United States of America to, amongst others, provide a framework to facilitate the establishment of purchase orders or contracts between KNMPS with FPI, when KNMPS is selected to provide products or services set out in the Agreement.

The Agreement is effective from 1 January 2007 to 31 December 2011 and extends to the following related corporations of KNMPS-

- (a) KNM Special Process Equipment (Changshu) Co Ltd, China;
- (b) FBM Hudson Italiana SpA, Italy;
- (c) FBM ICOSS srl, Italy;
- (d) FBM-KNM FZCO, Jebel Ali Free Zone, United Arab Emirates;
- (e) WE Smith Engineering Pty Ltd, Australia;
- (f) HEA Australia Pty Ltd, Australia;
- (g) PT Heat Exchangers Indonesia, Indonesia;
- (h) KNM Sistemas de Processamento do Brasil Ltda, Brazil; and
- (i) KNM Process Equipment Inc, Canada.

(3) Bonus issue and share split

KNM Group Berhad had on 27 April 2007 proposed bonus issue on the basis of 1 new ordinary share of RM0.50 each in KNM (**KNM Shares or Shares**) for every 1 existing KNM Share held (**Bonus issue**) and proposed share split involving subdivision of each of the existing KNM Shares into 2 ordinary shares of RM0.25 each in KNM (**Share Split**).

The Bonus Issue involves the issuance of up to 263,451,140 new KNM Shares (**Bonus Shares**), on the basis of 1 new Bonus Share for every 1 existing KNM Share.

The Bonus Issue and Share Split were subject to approvals being obtained from:

- (i) The Securities Commission (**SC**) for the Share Split;
- (ii) The Bursa Malaysia Securities Berhad (**Bursa Securities**) for:

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- (a) the Share Split; and
- (b) the listing of and quotation for the subdivided KNM Shares arising from the Share Split and the Bonus Shares; and
- (iii) The shareholders of KNM, at an extraordinary general meeting.

Approval from SC and Bursa Securities were obtained on 25 May 2007, while the approval of the shareholders of KNM was obtained on 28 June 2007.

The Bonus Issue and Share Split exercise was completed as at 9.00 a.m. on 17 July 2007, where 1,036,183,800 ordinary shares of RM0.25 each were listed at such time.

- (4) 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.

- (5) KNM had on 30 May 2006 entered into a Memorandum of Agreement (MOA) with Sofinter to set 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 MJVCO is being finalised. The CJVCO is in the process of incorporation. The parties are actively promoting the business including submission of tenders.

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)	12,096
ICP	185,000
Bank Overdraft	13,394
Hire purchase liabilities	9
	<u>210,499</u>
Long term :	
Borrowings (secured)	46,437
Hire purchases liabilities	26
	<u>46,463</u>
	<u>256,962</u>

The above inclusive of borrowing in foreign currency of RMB22.55 million and EURO12.39 million.

The Exchange rates used are 1 RMB = RM 0.4548, and 1 EURO = RM4.6610

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.

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

Currency	Contract Amount '000	Equivalent Amount in RM'000
USD	153,908	537,009
GBP	47	318
EURO	38,897	181,562
SGD	1,479	3,389
AUD	4,151	11,411
JPY	2,897,233	88,372
		<hr/> <hr/> 822,061

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.

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B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	37,075	59,417	75,391	79,224
Number of shares at the beginning of the period ('000)	257,782	149,612	257,782	149,612
Effect of ESOS ('000)	784	1,123	784	1,123
Effect of Bonus issue ('000)	-	85,228	-	85,228
Weighted average number of shares ('000)	258,566	235,963	258,566	235,963
Basic earnings per share (sen)	14.34	25.18	29.16	33.57
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	37,075	59,417	75,391	79,224
Weighted average number of shares as per above ('000)	258,566	235,963	258,566	235,963
Number of shares under ESOS ('000)	8,787	9,919	8,787	9,919
Number of shares would have been issued at fair value('000)	(830)	(3,198)	(830)	(3,198)
Weighted average number of shares - diluted ('000)	266,523	242,684	266,523	242,684
Fully diluted earnings per share (sen)	13.91	24.48	28.29	32.64

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 29 August 2007.