

# KNM GROUP BERHAD

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

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

### 1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Individual Quarter		Cumulative Year to date	
	3 months ended 30.9.2007 RM'000	3 months ended 30.9.2006 RM'000	30.9.2007 RM'000	30.9.2006 RM'000
<b>Contract revenue</b>	<u>386,330</u>	<u>251,745</u>	<u>911,349</u>	<u>660,978</u>
<b>Operating profit</b>	74,342	44,552	157,734	109,092
Financing costs	(3,010)	(3,395)	(7,342)	(8,714)
Interest income	679	716	1,125	954
(Goodwill written off)/Negative goodwill	-	(616)	(1,050)	33,301
<b>Profit before tax</b>	<u>72,011</u>	<u>41,257</u>	<u>150,467</u>	<u>134,633</u>
Tax expense	(12,109)	(7,288)	(15,729)	(21,072)
<b>Net profit for the period</b>	<u>59,902</u>	<u>33,969</u>	<u>134,738</u>	<u>113,561</u>
Attributable to:				
Equity holders of the parent	61,005	28,262	136,396	107,486
Minority interest	<u>(1,103)</u>	<u>5,707</u>	<u>(1,658)</u>	<u>6,075</u>
	<u>59,902</u>	<u>33,969</u>	<u>134,738</u>	<u>113,561</u>
Earnings per share:				
- Basic (sen)	5.89	2.78	13.17	10.56
- Diluted (sen)	5.74	2.70	12.83	10.28

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

(Company No:521348-H)

(Incorporated in Malaysia)

## 2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	NOTE	As at 30.9.2007	As at 31.12.2006
		RM'000	RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible Assets		6,670	4,233
Property, plant and equipment		432,657	393,955
Other investment		2,473	2,374
Prepaid lease payments		16,421	11,569
Deferred Tax Asset		42,905	49,087
		<u>501,126</u>	<u>461,218</u>
<b>Current assets</b>			
Inventories		38,585	24,756
Contracts work in progress		255,538	211,029
Trade and other receivables		257,555	227,467
Cash and cash equivalents		123,103	91,225
		<u>674,781</u>	<u>554,477</u>
<b>TOTAL ASSETS</b>		<u>1,175,907</u>	<u>1,015,695</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		260,533	128,891
Reserves		261,560	261,439
		<u>522,093</u>	<u>390,330</u>
<b>Minority interest</b>		197	14,702
<b>Total Equity</b>		<u>522,290</u>	<u>405,032</u>
<b>Non-current liabilities</b>			
Long term payable		23,088	28,677
Long service leave liability		2,786	2,535
Borrowings	B9	47,051	42,948
Deferred taxation		54,853	56,365
		<u>127,778</u>	<u>130,525</u>
<b>Current liabilities</b>			
Payables and accruals		267,095	295,257
Customers advance for contract work in progress		44,227	377
Borrowings	B9	194,713	156,575
Current tax liabilities		19,804	27,929
		<u>525,839</u>	<u>480,138</u>
<b>Total liabilities</b>		<u>653,617</u>	<u>610,663</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>1,175,907</u>	<u>1,015,695</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.50</u>	<u>1.51</u>

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**KNM GROUP BERHAD**

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD  
 ENDED 30 September 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						
<b>As at 1 January 2006</b>	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)	
<b>As at 31 December 2006</b>	<b>257,782</b>	<b>128,891</b>	<b>55,837</b>	<b>6,753</b>	<b>198,849</b>	<b>390,330</b>	<b>14,702</b>	<b>405,032</b>	
Acquisition of minority interest	-	-	-	-	-	-	(13,286)	(13,286)	
Issue of shares pursuant to:									
- ESOS	7,211	2,119	1,359	-	-	3,478	-	3,478	
- Bonus issue	259,046	129,523	(56,858)	-	(72,665)	-	-	-	
- Share Split	518,092	-	-	-	-	-	-	-	
Transfer to share premium for share options exercised	-	-	337	(337)	-	-	-	-	
Derecognition of deferred tax liabilities arising from RPGT exemption	-	-	-	4,162	-	4,162	-	4,162	
Expenses not recognised in income statement									
- Share issue expenses	-	-	(260)	-	-	(260)	-	(260)	
Share-based payments	-	-	-	94	-	94	-	94	
Currency translation differences arising in the period	-	-	-	845	-	845	439	1,284	
Net Profit for the period	-	-	-	-	136,396	136,396	(1,658)	134,738	
Dividend paid	-	-	-	-	(12,952)	(12,952)	-	(12,952)	
<b>As at 30 September 2007</b>	<b>1,042,131</b>	<b>260,533</b>	<b>415</b>	<b>11,517</b>	<b>249,628</b>	<b>522,093</b>	<b>197</b>	<b>522,290</b>	

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# KNM GROUP BERHAD

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 September 2007

(Unaudited)

	30.9.2007	31.12.2006
	RM	RM
	'000	'000
Net cash generated from/(used in) operating activities	74,387	(34,318)
Net cash used in investing activities	(52,103)	(18,934)
Net cash generated from financing activities	29,208	95,652
Net increase in cash and cash equivalents	51,492	42,400
Cash and cash equivalents at beginning of period/year	58,049	15,649
Cash and cash equivalents at end of period/year	109,541	58,049
Cash & bank balances	62,139	63,693
Deposits with financial institutions	38,516	6,740
Deposits with licensed banks	22,448	20,792
	123,103	91,225
Deposit pledged to licensed bank	-	(19,244)
	123,103	71,981
Bank overdraft	(13,562)	(13,932)
	109,541	58,049

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**Notes to the quarterly Interim Financial Report – 30 September 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.

During the quarter, the functional currency of the following companies have changed from Ringgit Malaysia (RM) to United States Dollars (USD) due to the change in currency in which receipt from operating activities are usually retained.

- (1) KNM Process Systems Sdn Bhd
- (2) KNM International Sdn Bhd
- (3) KNM Overseas (China) Sdn Bhd
- (4) KNM Global Ltd

**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>57,000</u>
Balance of ICP/IMTN outstanding as at 30 September 2007	<u>165,000</u>

As at 30 September 2007, the amount outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) was RM165.0 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 on 25 August 2004 and 7 December 2005 at an option price of RM1.63 and RM2.88 per share with expiry date on 24 August 2009 pursuant to the Company’s Employees’ Share Option Scheme (ESOS). At the date of this report, 10,384,000 shares were exercised and 62,435 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 1,045,783,400 and total number of unexercised share options as at date of report is 25,539,560.

During the quarter under review, 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.

**KNM GROUP BERHAD**  
**( Company No: 521348-H)**

**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:	<b>Revenue</b>	<b>Operating Profit</b>
	9 months ended 30.9.2007 RM'000	9 months ended 30.9.2007 RM'000
Process equipment	911,342	157,729
Others	7	5
	<hr/>	<hr/>
	911,349	157,734

Geographical segments:	<b>Revenue</b>	<b>Operating Profit</b>
	9 months ended 30.9.2007 RM'000	9 months ended 30.9.2007 RM'000
Malaysia	482,975	97,762
Overseas	428,374	59,972
Total	<hr/>	<hr/>
	911,349	157,734

**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 other 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	98,763	163,401
Investment	2,043	81,882
	100,806	245,283

**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	1,389
* a company in which, Mr.Lee Swee Eng and Gan Siew Liat are directors	
I.M.Bina Sdn Bhd **	
-General construction and civil works	12,022
Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	113
** 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 RM911.35 million and profit before tax and minority interest of RM150.47 million for the current period ended 30 September 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 RM386.33 million and net profit after taxation and minority interest of RM61.00 million for the third quarter ended 30 September 2007 were higher by 47.00% and 59.98% to second quarter's revenue of RM262.80 million and net profit after taxation and minority interest of RM38.13 million respectively. The increase in net profit after taxation was mainly due to higher revenue recognised 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**

	<b>9 months ended 30.9.2007 RM'000</b>	<b>9 months ended 30.9.2006 RM'000</b>
Income Tax expense :-		
Current	8,830	20,809
Prior period	(1,972)	263
Deferred tax	8,871	-
	<u>15,729</u>	<u>21,072</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 Group Berhad had on 4 September 2007 announced that proposed acquisition by KNM of 100% equity interest in Pisces Engineering Sdn Bhd (**Pisces**) comprising 500,000 ordinary shares of RM1.00 each for a total cash consideration of up to RM50.0 million (**Consideration**).

The proposed acquisition is subject to:-

- (a) the completion of due diligence to be carried out by KNM and its advisers, with results satisfactory to KNM at its sole discretion
- (b) the signing of a definitive agreement by KNM and the Vendor for the sale and purchase of the Sale Shares within 45 days from this agreement, or such other period as agreed by the parties;
- (c) the approvals of the Foreign Investment Committee and/or Ministry of International Trade and Industry; and
- (d) the approvals of other relevant authorities, where applicable.

The Consideration shall be paid as follows -

- (i) RM25,000,000.00 upon fulfillment of the following conditions -
  - (aa) the shareholders' funds of Pisces for the financial year ended 31 December 2006 is not less than RM15.6 million, including cash and/or cash equivalents of not less than RM10.3 million with licensed financial institutions before any revaluation of assets, and a net profit after tax of not less than RM 6.5 million; and
  - (bb) the shareholders' funds and net profit after tax of Pisces as set out in its latest management accounts shall not less than RM19.6 million and RM4.0 million respectively, as at 30 June 2007.
- (ii) RM12,500,000.00 upon Pisces achieving a net profit after tax of not less than RM8.0 million for the financial year ended 31 December 2007, based on the audited accounts of Pisces.
- (iii) RM12,500,000.00 upon Pisces achieving a net profit after tax of not less than RM8.5 million for the financial year ended 31 December 2008, based on the audited accounts of Pisces.

**KNM GROUP BERHAD**  
**( Company No: 521348-H)**

- (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 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:

	<b>RM '000</b>
<b>Short term:</b>	
Borrowings (secured)	16,117
ICP/IMTN	165,000
Bank Overdraft	13,562
Hire purchase liabilities	34
	<u>194,713</u>
<b>Long term :</b>	
Borrowings (secured)	47,051
Hire purchases liabilities	-
	<u>47,051</u>
	<u><u>241,764</u></u>

The above inclusive of borrowing in foreign currency of RMB18.25 million and EURO11.29 million.

The Exchange rates used are 1 RMB = RM 0.4544, and 1 EURO = RM4.8619

**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:-

Currency	Contract Amount '000	Equivalent Amount in RM'000
USD	133,049	463,359
GBP	1,605	11,071
EURO	35,858	166,211
SGD	554	1,272
AUD	3,893	10,706
JPY	272,875	8,263
RM	93,530	92,330
INR	8,500	705
		<hr/> <hr/> 753,917

Operation foreign exchange exposure on asset and liabilities are hedged accordingly on timely basis to protect its underlying values.

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.

**KNM GROUP BERHAD**  
**( Company No: 521348-H)**

**B13. Earnings per share**

	Individual Quarter		Cumulative Quarter	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
<b>(a) Basic earnings per share</b>				
Net Profit attributable to shareholders (RM'000)	61,005	28,262	136,396	107,486
Number of shares at the beginning of the period ('000)	257,782	149,612	257,782	149,612
Effect of ESOS ('000)	1,047	2,106	1,047	2,106
Effect of Private Placement ('000)	-	3,990	-	3,990
Effect of Bonus issue issue ('000)	259,046	344,274	259,046	344,274
Effect of Share Split ('000)	518,092	518,092	518,092	518,092
Weighted average number of shares ('000)	1,035,967	1,018,074	1,035,967	1,018,074
Basic earnings per share (sen)	5.89	2.78	13.17	10.56

	Individual Quarter		Cumulative Quarter	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
<b>(b) Diluted earnings per share</b>				
Net Profit attributable to shareholders (RM'000)	61,005	28,262	136,396	107,486
Weighted average number of shares as per above ('000)	1,035,967	1,018,074	1,035,967	1,018,074
Number of shares under ESOS ('000)	29,192	38,610	29,192	38,610
Number of shares would have been issued at fair value('000)	(2,366)	(11,392)	(2,366)	(11,391)
Weighted average number of shares - diluted ('000)	1,062,793	1,045,292	1,062,793	1,045,292
Fully diluted earnings per share (sen)	5.74	2.70	12.83	10.28

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

**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 held on 22 November 2007.