

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2008 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Individual Quarter		Cumulative Year to date	
	3 months ended 30.6.2008 RM'000	3 months ended 30.6.2007 RM'000	30.6.2008 RM'000	30.6.2007 RM'000
Contract revenue	<u>599,401</u>	<u>262,796</u>	<u>930,616</u>	<u>525,019</u>
Operating profit	120,141	37,182	184,573	83,393
Financing costs	(13,593)	(2,849)	(18,212)	(4,332)
Interest income	2,961	313	4,590	445
Goodwill written off	-	(1,050)	-	(1,050)
Profit before tax	<u>109,509</u>	<u>33,596</u>	<u>170,951</u>	<u>78,456</u>
Tax expense	(13,218)	1,746	(20,536)	(3,620)
Net profit for the period	<u>96,291</u>	<u>35,342</u>	<u>150,415</u>	<u>74,836</u>
Attributable to:				
Equity holders of the parent	96,291	37,075	150,415	75,391
Minority interest	-	(1,733)	-	(555)
	<u>96,291</u>	<u>35,342</u>	<u>150,415</u>	<u>74,836</u>
Earnings per share:				
- Basic (sen)	9.07	3.58	14.18	7.28
- Diluted (sen)	8.94	3.47	13.97	7.07

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 30.6.2008	As at 31.12.2007
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets	1	1,595,876	6,672
Property, plant and equipment		574,242	468,973
Other investment		4,642	2,474
Prepaid lease payments		19,233	15,826
Deferred Tax Asset		45,675	37,664
		<u>2,239,668</u>	<u>531,609</u>
Current assets			
Inventories		81,562	62,185
Contracts work in progress		272,080	335,955
Trade and other receivables		657,035	211,970
Cash and cash equivalents		545,723	105,330
		<u>1,556,400</u>	<u>715,440</u>
TOTAL ASSETS		<u>3,796,068</u>	<u>1,247,049</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		329,675	261,646
Reserves		1,406,084	293,824
		<u>1,735,759</u>	<u>555,470</u>
Minority interest		<u>2,646</u>	<u>199</u>
Total Equity		<u>1,738,405</u>	<u>555,669</u>
Non-current liabilities			
Long term payable		29,196	33,345
Long service leave liability		3,397	2,832
Borrowings	B9	264,730	45,007
Deferred taxation		131,011	53,855
		<u>428,334</u>	<u>135,039</u>
Current liabilities			
Payables and accruals		668,127	286,057
Customers advance for contract work in progress		20,131	24,322
Borrowings	B9	921,408	220,907
Current tax liabilities		19,663	25,055
		<u>1,629,329</u>	<u>556,341</u>
Total liabilities		<u>2,057,663</u>	<u>691,380</u>
TOTAL EQUITY AND LIABILITIES		<u>3,796,068</u>	<u>1,247,049</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.32</u>	<u>0.53</u>

Note 1

The Management of the Group are currently in the midst of ascertaining the fair value of the asset, liabilities and contingent liabilities of Borsig as at the date of acquisition. Any adjustment to the fair value of the asset, liabilities and contingent liabilities of Borsig will have a corresponding effect on the Goodwill and net asset of KNM Group.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
ENDED 30 JUNE 2008
(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	Loss) / Retained Profit RM'000					
As at 1 January 2007	257,782	128,891	55,837	6,753	198,849	390,330	14,702	405,032	
Acquisition of minority interest	-	-	-	-	-	-	(13,285)	(13,285)	
Issue of shares pursuant to:									
- ESOS	11,663	3,232	1,477	-	-	4,709	-	4,709	
- Bonus issue	259,046	129,523	(56,858)	-	(72,665)	-	-	-	
- Share Split	518,092								
Transfer to share premium for share options exercised	-	-	375	(375)	-	-	-	-	
Derecognition of deferred tax liabilities arising from RPGT exemption	-	-	-	58	-	58	-	58	
Expenses not recognised in income statement									
- Share issue expenses	-	-	(260)	-	-	(260)	-	(260)	
Share-based payments	-	-	-	125	-	125	-	125	
Currency translation differences arising in the period	-	-	-	(14,673)	-	(14,673)	439	(14,234)	
Net Profit for the period	-	-	-	-	188,133	188,133	(1,657)	186,476	
Dividend paid	-	-	-	-	(12,952)	(12,952)	-	(12,952)	
As at 31 December 2007	1,046,583	261,646	571	(8,112)	301,365	555,470	199	555,669	
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	2,646	2,646	
Acquisition of minority interest	-	-	-	-	-	-	(199)	(199)	
Issue of shares pursuant to:									
- ESOS	8,378	2,095	1,558	-	-	3,653	-	3,653	
Right Issue	263,736	65,934	989,010			1,054,944		1,054,944	
Expenses not recognised in income statement									
- Share issue expenses	-	-	(12,376)			(12,376)		(12,376)	
Share-based payments	-	-	-	201	-	201	-	201	
Transfer to share premium for share options exercised			164	(164)		-			
Currency translation differences arising in the period	-	-	-	14,517	-	14,517	-	14,517	
Net Profit for the period	-	-	-	-	150,415	150,415	-	150,415	
Dividend paid	-	-	-	-	(31,065)	(31,065)		(31,065)	
As at 30 June 2008	1,318,697	329,675	978,927	6,442	420,715	1,735,759	2,646	1,738,405	

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD END

30 June 2008

(Unaudited)

	30.6.2008	31.12.2007
	RM	RM
	'000	'000
Net cash (used in)/generated from operating activities	360,827	80,266
Net cash used in investing activities	(1,747,299)	(116,843)
Net cash generated from financing activities	1,829,294	76,761
Net increase in cash and cash equivalents	<u>442,822</u>	<u>40,184</u>
Cash and cash equivalents at beginning of period/year	98,233	58,049
Cash and cash equivalents at end of period/year	<u><u>541,055</u></u>	<u><u>98,233</u></u>
Cash & bank balances	358,980	73,483
Deposits with financial institutions	19,410	3,780
Deposits with licensed banks	<u>167,332</u>	<u>28,067</u>
	545,722	105,330
Bank overdraft	<u>(4,667)</u>	<u>(7,097)</u>
	<u><u>541,055</u></u>	<u><u>98,233</u></u>

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

Notes to the quarterly Interim Financial Report – 30 June 2008

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 2007. 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 2007.

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 2007 except for the adoption of the following revised Financial Reporting Standards (FRSs) and new Interpretations effective for financial periods beginning on or after 1 January 2008:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Grants and Disclosure of Government Assistance
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC interpretation 5	Right to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC interpretation 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC interpretation 7	Applying the Restatement Approach under FRS129 -Financial Reporting in Hyperinflationary Economies
IC interpretation 8	Scope of FRS 2

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 2007.

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

A. 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 2008	200,000
ICP/IMTN withdrawn	<u>65,000</u>
Balance of ICP/IMTN outstanding as at 30 June 2008	<u><u>265,000</u></u>

As at 30 June 2008, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") is RM265.0 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.

B. 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, 8,384,900 shares were exercised. After taking into account these new shares allotted and bonus issue of 2,637,394,050 shares on 25 July 2008, the issued and paid up shares of the Company increased to 3,956,097,675 and total number of unexercised share options as at date of report is 16,513,020.

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A8. Dividend Paid

An interim dividend of 4 sen per ordinary share less tax totaling RM31,065,463 in respect of the year ended 31 December 2007 was paid on 18 April 2008.

A9. Segment information

Segmental analysis of the revenue and result:-

Business Segment:	Revenue	Operating Profit
	6 months ended 30.6.2008 RM'000	3 months ended 30.6.2008 RM'000
Process equipment	930,419	184,485
Others	197	88
	<hr/>	<hr/>
	930,616	184,573

Geographical segments:	Revenue	Operating Profit
	6 months ended 30.6.2008 RM'000	6 months ended 30.6.2008 RM'000
Malaysia	489,231	102,521
Overseas	441,385	82,052
Total	<hr/>	<hr/>
	930,616	184,573

A10. Valuation of property, plant and equipment

Property, plant and equipment of the Group are 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	78,592	128,047
Investment	1,670,010	177,766
	<u>1,748,602</u>	<u>305,813</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	895

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

I.M.Bina Sdn Bhd **	
-General construction and civil works	4,166

Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	54

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

Tofield Realty Development Corporation ***	
- General and civil contractor and provider of staff accomodation	4,034

*** a wholly-owned subsidiary of *Asiavertek*, of which *Mr. Lee Swee Eng and Madam Gan Siew Liat* are directors and shareholders

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

B1. Review of performance

The Group achieved revenue of RM930.62 million and profit before tax and minority interest of RM170.95 million for the current period ended 30 June 2008. The revenue increased mainly due to the additional manufacturing capacity and job orders secured with the results of Borsig being consolidated from 6th June 2008.

B2. Variation of results against preceding quarter

The Group's revenue of RM599.40 million and net profit after taxation and minority interest of RM96.29 million for the second quarter ended 30 June 2008 were higher by 80.97% and 77.89% to first quarter's revenue of RM331.22 million and net profit after taxation and minority interest of RM54.13 million respectively. The increase in net profit after taxation was mainly due to higher revenue being recognized with the results of Borsig being consolidated from 6th June 2008.

B3. Current year prospects

The Board is confident that the Group's results for the financial year ending 31 December 2008 will exceed the financial performance of the Group for the financial year ended 31 December 2007.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	6 months ended 30.6.2008 RM'000	6 months ended 30.6.2007 RM'000
Income Tax expense :-		
Current	9,413	5,988
Prior period	(8,073)	(3,568)
Deferred tax	19,196	1,200
	<u>20,536</u>	<u>3,620</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 (KNM) had in August 2008 announced that KNM International Sdn Bhd (KNMI) and KNM Process Systems Sdn Bhd (KNMPS), a wholly-owned subsidiary of KNM proposed acquired 80% equity interest in HZM Industrial Ltda, HZM Servicos Ltda and HZM S.A. Industria e Comercio de Equipments (HZM Companies) for a total consideration of Brazilian Real 27.0 million.

All conditions for the proposed acquisition have been fulfilled prior to the entering into the SPA on 19 August 2008.

- (2) KNM Group Berhad (KNM) had in March 2008 announced that KNM Process Systems Sdn Bhd (“KNMPS”), a wholly-owned subsidiary of KNM had in February 2008 entered into sale and agreement with the Vendors to acquire 100% equity interest in Borsig Beteiligungsverwaltungsgesellschaft mbH (Borsig), comprising 12 fully paid-up ordinary shares for a total cash consideration of Euro 350,000,000.

The Proposed Acquisition was completed on 6 June 2008 in accordance with the terms and conditions of the sale and purchase agreement dated 29 February 2008.

- (3) KNM Group Berhad had on 4 February 2008 announced that the Company is proposing to undertake the following exercises:-
- (a) Proposed Renounceable Rights Issue of up to 267,807,215 new ordinary shares of RM0.25 each in KNM (“KNM Shares”) on the basis of one (1) new KNM Share for every four (4) existing KNM Shares held on an entitlement date to be determined later at the indicative issue price of RM4.00 per right share
 - (b) Proposed bonus issue of up to 2,678,072,150 new KNM shares on the basis of two (2) new KNM share for every share held after the proposed right issue on an entitlement date to be determined later (“Proposed Bonus Issue”)
 - (c) Proposed issuance of up to United States of America Dollar (“USD”)350 million (or its Euro Dollar or Malaysia Ringgit equivalent) Bonds, exchangeable into new KNM Shares (“exchangeable bonds”) (“Proposed Exchangeable Bonds Issue”)
 - (d) Proposed increase in the Authorised share capital of KNM (“Proposed increase in Authorised Share Capital”); and
 - (e) Proposed amendment to the Memorandum and articles of association (“Proposed M&A Amendment”)

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The Proposed Renounceable Rights Issue was completed on 30 June 2008 and the Proposed Bonus Issue was completed on 28 July 2008.

The Proposed Exchangeable Bonds Issue which approved by KNM Group Berhad's shareholders and Securities Commission in April 2008 and May 2008 respectively has been put on hold until such appropriate time. Meanwhile, the Group is finalizing the conversion of Bridging Loan into long-term loan.

- (4) KNM Group Berhad had on 9 January 2008 announced that the Company has entered into a Master Agreement (MA) with Ellimetal International N.V. (Vendor) to acquire 100% equity interest in its wholly owned subsidiary Ellimetal NV (Ellimetal) for a consideration sum of Euro 20 Million (Consideration).

The Proposed Acquisition is subject to:-

- (a) The Purchaser and the Vendor enter into a definitive Sale and Purchase Agreement
 - (b) Completion of legal and financial due diligence on Ellimetal to the satisfaction of the Purchaser
 - (c) Shareholders' (if necessary) and Board of Directors' approval of the Purchaser
 - (d) Regulatory approvals in Malaysia, Belgium and elsewhere (if required), including approvals of other relevant authorities, where applicable.
- (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 has not been finalised.

- (6) The utilisation of right issue proceeds was made as follows:

	Total Proceeds RM'000	Utilised RM'000	Unutilised RM'000
Potential strategic acquisition and/or working capital purposes	1,024,944	(1,013,045)	11,899
Defray estimated expenses for the Right Issue, Bonus Issue and Exchangeable Bond Issue	30,000	(9,162)	20,838
Total	1,054,944	(1,022,207)	32,737

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)	4,816
Borrowings (unsecured)	781,925
ICP/IMTN	130,000
Bank Overdraft	4,667
Bill Payable	-
	<u>921,408</u>
Long term :	
Borrowings (secured)	49,632
Borrowings (unsecured)	80,098
IMTN	135,000
	<u>264,730</u>
	<u>1,186,138</u>

The above inclusive of borrowing in foreign currency of RMB42.75 million and EURO174.06 million.

The Exchange rates used are 1 RMB = RM 0.4756 and 1 EURO = RM5.1485

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.

As at the end of the reporting period, followings are the available foreign exchange contracts :-

Currency	Contract Amount '000	Equivalent Amount in RM'000
USD	198,575	647,720
GBP	3,018	19,209
EURO	46,147	222,001
SGD	1,016	2,433
AUD	2,526	7,306
JPY	240,273	7,738
RM	72,100	68,142
INR	9,450	757
CAD	225	733
		<u>976,039</u>

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

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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.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	96,291	37,075	150,415	75,391
Number of shares at the beginning of the period ('000)	1,046,583	257,782	1,046,583	257,782
Effect of ESOS ('000)	4,296	784	4,296	497
Effect of Bonus issue ('000)	-	259,046	-	259,046
Effect of Share Split ('000)	-	518,092	-	518,092
Effect of Right issue ('000)	10,200		10,200	
Weighted average number of shares ('000)	1,061,079	1,035,704	1,061,079	1,035,704
Basic earnings per share (sen)	9.07	3.58	14.18	7.28

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	Individual Quarter		Cumulative Quarter	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	96,291	37,075	150,415	75,391
Weighted average number of shares as per above ('000)	1,061,079	1,035,704	1,061,079	1,035,704
Number of shares under ESOS ('000)	16,520	35,083	16,520	35,083
Number of shares would have been issued at fair value('000)	(740)	(3,738)	(740)	(3,738)
	<hr/>			
Weighted average number of shares - diluted ('000)	1,076,859	1,067,049	1,076,859	1,067,049
Fully diluted earnings per share (sen)	8.94	3.47	13.97	7.07

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 26 August 2008.