

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 MARCH 2005 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 31.3.2005 RM'000	3 months ended 31.3.2004 RM'000	31.3.2005 RM'000	31.3.2004 RM'000
Contract revenue		71,393	35,221	71,393	35,221
Operating profit		11,906	5,188	11,906	5,188
Financing costs		(1,392)	(559)	(1,392)	(559)
Interest income		174	24	174	24
Negative goodwill		623	-	623	-
Share of profit of jointly controlled entity	A4	1,098	-	1,098	-
Profit before tax		12,409	4,653	12,409	4,653
Tax expense		(3,526)	(1,576)	(3,526)	(1,576)
Net profit for the period		8,883	3,077	8,883	3,077
Earnings per share:					
- Before negative goodwill (Sen)		5.62	2.19	5.62	2.19
- After negative goodwill (Sen)		6.04	2.19	6.04	2.19
- Diluted (Sen)		5.91	2.19	5.91	2.19

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

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2. CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	NOTE	As at 31.3.2005 RM'000	As at 31.12.2004 Audited RM'000
Intangible Assets		468	-
Property, plant and equipment		106,479	95,343
Investment in jointly controlled entities		50,785	49,687
		<u>157,732</u>	<u>145,030</u>
Current assets			
Inventories		5,941	6,870
Trade and other receivables		98,962	126,971
Cash and cash equivalents		63,892	26,268
		<u>168,795</u>	<u>160,109</u>
Current liabilities			
Trade and other payables		26,980	27,610
Borrowings	B9	18,716	20,646
Provision for taxation		4,931	2,172
		<u>50,627</u>	<u>50,428</u>
Net current assets		<u>118,168</u>	<u>109,681</u>
		<u>275,900</u>	<u>254,711</u>
Financed by:			
Capital and reserves			
Share capital		73,724	72,956
Share premium		1,193	804
Revaluation reserve		6,735	6,735
Retained profits		42,765	33,882
		<u>124,417</u>	<u>114,377</u>
Long term and deferred liabilities			
Borrowings	B9	144,443	133,351
Deferred taxation		7,040	6,983
		<u>151,483</u>	<u>140,334</u>
		<u>275,900</u>	<u>254,711</u>
Net tangible assets per share (RM)		<u>0.84</u>	<u>0.78</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD**ENDED 31 March 2005**

(Unaudited)

	No. of Share RM'000	Share Capital RM'000	Non-Distributable		Distributable Reserve (Accumulated Loss) / Retained Profit RM'000	Total RM'000
			Share Premium RM'000	Revaluation Reserve RM'000		
As at 1 January 2004	44,000	44,000	9,388	-	25,567	78,955
Issue of shares pursuant to:						
- Private Placement	4,400	4,400	11,000	-	-	15,400
- Bonus Issue	48,400	24,200	(20,249)	-	(3,951)	-
- Share Split	48,400	-	-	-	-	-
- Esos	712	356	804	-	-	1,160
Expenses not recognised in income statement						
- Listing expenses	-	-	(139)	-	-	(139)
Surplus on revaluation of properties	-	-	-	6,735	-	5,502
Net Profit for the year	-	-	-	-	14,466	15,004
Dividends	-	-	-	-	(2,200)	(2,200)
As at 31 December 2004	145,912	# 72,956	804	6,735	33,882	114,377
Issue of shares pursuant to:						
- Esos	1,536	768	1,736	-	-	2,504
Expenses not recognised in income statement						
- Listing expenses	-	-	(1,347)	-	-	(1,347)
Net Profit for the period	-	-	-	-	8,883	8,883
As at 31 March 2005	147,448	73,724	1,193	6,735	42,765	124,417

Issued and fully paid up of 145,912,000 ordinary shares after share split of every one (1) existing KNM Share into two (2) new ordinary share of RM0.50 each on 13 September 2004.

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)**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED
31 MARCH 2005**

(Unaudited)

	31.3.2005 RM '000	31.3.2004 RM '000
Cash flows from operating activities		
Profit before tax	12,409	4,653
Adjustments for:		
Negative goodwill	(623)	-
Depreciation	1,735	1,562
Interest expense	1,527	559
Interest income	(178)	(24)
Share of profit in jointly control entity	(1,098)	-
Operating profit before working capital changes	<u>13,772</u>	<u>6,750</u>
(Increase)/Decrease in working capital:		
Inventories	1,019	(277)
Trade and other receivables	28,943	(10,114)
Trade and other payables	(3,872)	(3,373)
Cash used in operations		
Income taxes paid	(743)	(179)
Interest paid	(1,527)	(559)
Interest received	178	24
Net cash generated from/(used in) operating activities	<u>37,770</u>	<u>(7,728)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,594)	(1,611)
Acquisition of subsidiary net of cash acquired (Note A)	(6,120)	-
Net cash used in investing activities	<u>(9,714)</u>	<u>(1,611)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	1,157	-
Net (repayment)/proceeds from bill payable	(2,056)	6,039
Repayment of hire purchase liabilities	(29)	(623)
Net proceeds from term loan	17,108	3,308
Net repayment to MUNIF	(6,000)	-
Net cash generated from financing activities	<u>10,180</u>	<u>8,724</u>
Net increase/(decrease) in cash and cash equivalents	38,236	(615)
Cash and cash equivalents at beginning of year	25,169	(10,923)
Cash and cash equivalents at end of period	<u>63,405</u>	<u>(11,538)</u>
Cash & bank balances	62,542	5,064
Deposits in the licensed bank	<u>1,350</u>	<u>1,741</u>
	63,892	6,805
Bank overdraft	<u>(487)</u>	<u>(18,343)</u>
	<u>63,405</u>	<u>(11,538)</u>

Note A*Acquisition of Sumber Amantech Sdn Bhd and MKE Engineering Sdn Bhd's Group (inclusive of Pancaran Ribu (M) Sdn Bhd, Hasil Wira Sdn Bhd and KMK Power Sdn Bhd)*

During the period, the group acquired Sumber Amantech Sdn Bhd and MKE Engineering Sdn Bhd's Group

	RM '000
Property, plant & equipment	9,277
Inventories	90
Receivables	962
Payables and accruals	(3,241)
Borrowings	(750)
Provision for taxation	(4)
Deferred taxation	(58)
Cash and Bank	75
Bank Overdraft	(395)
Net assets acquired	<u>5,956</u>
Negative Goodwill on acquisition	<u>(156)</u>
Purchase consideration satisfied by cash	<u>5,800</u>
Add : cash of the subsidiary companies acquired	<u>(320)</u>
Cash flow on acquisition net of cash acquired.	<u>6,120</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 – 31 March 2005

PART A: EXPLANATORY NOTES AS PER MASB 26

A1. Basis of preparation

The interim financial report is unaudited and prepared in compliance with the Malaysian Accounting Standards Board (MASB) Standard No. 26 “Interim Financial Reporting” and paragraph 9.22 of the Bursa Malaysia Listing Requirements and should be read in conjunction with the Company’s audited annual financial statements for the year ended 31 December 2004.

The accounting policies and methods of computation adopted for the interim financial report are consistent with those adopted for the last annual audited financial statements.

A2. Qualification of annual financial statements

There were no audit qualifications on the annual financial statements of the Company for the year ended 31 December 2004.

A3. Seasonal and cyclical factors

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

A4. 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.

A5. Material changes in estimates

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

A6. 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 stated below:

	RM’000
MUNIF Issued/ Rolled Over	130,000
MUNIF Repaid	<u>(14,000)</u>
Amount of MUNIF outstanding as at 31 March 2005	<u><u>116,000</u></u>

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As at 31 March 2005, the amount outstanding for Murabahah Underwritten Note Issuance Facility (“MUNIF”) /Islamic Medium Term Notes (“IMTN”) was RM116.0 million out of the limit of RM150.0 million which mainly for repayment of bank borrowings and working capital. The entire RM150.0 million MUNIF/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 ordinary shares of RM0.50 each were granted to eligible employees at an option price of RM1.63 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, 2,329,100 share were allotted. After taking into account these new shares, the issued and paid up capital of the Company was increased to 147,529,100.

Total number of unexercised share option as at date of report was 12,798,100.

A7. Dividend Paid

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

A8. Segment information

Segmental analysis of the revenue and result :-

Business Segment:	Revenue	Operating Profit
	3 months ended 31.3.2005 RM’000	3 months ended 31.3.2004 RM’000
Process equipment	70,320	11,624
Terminal, refineries and process plant	519	93
Steel structural system	137	29
Process maintenance	417	160
	<hr/> <u>71,393</u>	<hr/> <u>11,906</u>

A9. 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.

A10. 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.

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A11. 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 under the Note B8.

A12. Changes in contingent liabilities

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

A13. Capital commitments

	Approved and contracted for RM'000	Approved but not contracted for RM'000
Property, plant and equipment	15,109	65,655
Investment	-	10,000
	<u>15,109</u>	<u>75,655</u>

A14. Related party transactions

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

	RM '000
Inter Merger Sdn Bhd, *	
- Rental expense payable	302
<i>*a company in which Dato' Abdul Rani Bin Mohd Razalli, Mr.Lee Swee Eng and Gan Siew Liat are directors</i>	
I.M.Bina Sdn Bhd,**	
-Contract billings payable	1,340
-Manpower supply payable	-
Inter Merger Trading Sdn Bhd,**	
-Purchase of materials	37
<i>**a company in which Inter Merger Sdn Bhd is a holding company</i>	
KNM-DP Fabricators Sdn Bhd, an associated company	
- Contracts billings payable	911
- Reimbursement of site and maintenance expenses	(120)

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

B1. Review of performance

The Group achieved revenue of RM71.39 million and profit before tax of RM12.41 million for the current quarter ended 31 March 2005.

Compared to the corresponding period of previous financial year, the revenue increased substantially mainly due to increase in revenue recognised in line with the increase in manufacturing capacity.

B2. Variation of results against preceding quarter

The Group's revenue of RM71.39 million and profit before taxation of RM12.41 million for the first quarter ended 31 March 2005 were higher by 43% and 3,661% compared to the last year fourth quarter's revenue of RM50.08 million and profit before taxation of RM0.33 million respectively.

The substantial increase in net profit before tax was mainly due to increase in revenue recognised in line with the increase in manufacturing capacity.

B3. Current year prospects

The Board expects the Group's operations to improve in the remaining period to the end of financial year 2005.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	3 months ended 31.3.2005 RM'000	3 months ended 31.3.2004 RM'000
Income Tax expense :-		
Current	3,526	1,576
	<hr/> 3,526	<hr/> 1,576

The Group's effective tax rate is marginally higher than the statutory tax rate mainly due to non-availability of group tax relief where tax on profits of certain subsidiaries cannot be set-off against losses of other subsidiaries for tax purposes.

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) As reported in the previous quarter's interim financial report, there is no change of status on the proposed transfer of listing of and quotation for the entire issued and paid-up share capital of KNM from the Second Board to the Main Board of Bursa Malaysia Securities Berhad which was put on hold.
- (2) The utilisation of IPO proceeds was made as follows:

	Total Proceeds RM'000	Utilised RM'000	Unutilised RM'000
Repayment of term loan	11,077	(10,874)	203
Capital expenditure	8,190	(7,099)	1,091
Listing expenses	1,500	(1,864)	(364)
Working capital	298	(298)	-
Total	21,065	(20,135)	930

- (3) Private Placement

The Private Placement of 4,400,000 new ordinary shares of RM1.00 each of the Company was issued on 19 August 2004 and granted listing and quotation on the Second Board of the Bursa Malaysia with effect from 24 August 2004.

The status of utilisation of the proceeds raised from the Private Placement exercise is as follows:

	Total Proceeds RM'000	Utilised RM'000	Unutilised RM'000
Purchase of raw material for manufactured of process equipment	10,780	(10,780)	-
General working capital requirement	3,920	(4,504)	(584)
Estimated expenses for proposal	700	(116)	584
Total	15,400	(15,400)	-

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- (4) Proposed acquisition by KNM Process Systems Sdn Bhd (**KNMPS**) of the entire issued and paid-up share capital of Sumber Amantech Sdn Bhd (**Sumber**) and the proposed acquisition by Sumber of the entire issued and paid-up share capital of MKE Engineering Sdn Bhd (**MKE**) for a cash consideration of RM5,800,000.

KNMPS, a wholly-owned subsidiary of KNM, entered into a conditional Sale and Purchase of Shares Agreement with the shareholders of Sumber on 29 November 2004 (**Sumber SPA**) to acquire the entire issued and paid-up share capital of Sumber, comprising 2 ordinary shares of RM1.00 each, for a cash consideration of RM2.00. Sumber simultaneously entered into a conditional Sale and Purchase of Shares Agreement with the shareholders of MKE (**MKE SPA**) to acquire the entire issued and paid-up share capital of MKE, comprising 9,000,000 shares of RM1.00 each for a cash consideration of RM5,800,000. With the completion of the Sumber SPA, Sumber shall become a wholly owned subsidiary of KNMPS, and KNMPS will complete the MKE SPA through Sumber.

The last of the conditions precedent applicable to the Sumber SPA and the MKE SPA were obtained on 16 February 2005, and the MKE SPA were completed on 9 March 2005.

- (5) On 26 April 2005, KNMPS, a wholly-owned subsidiary of KNM had acquired the entire issued and paid-up shares in the following companies for a cash consideration of RM2.00 each:-

- (i) KNM Technical Services Sdn Bhd (KNMPTS)

KNMPTS was incorporated in Malaysia on 24 March 2005 and has not commenced operation since its date of incorporation. KNMPTS has an authorized share capital of RM100,000.00 divided into 100,000 shares of RM1.00 each, of which 2 ordinary shares are issued and fully paid up. KNMPTS is intended to be involved principally in the provision of engineering, design, technical services and other associated services related to the oil, gas and petrochemical industries.

- (ii) KNM Plant (Melaka) Sdn Bhd, formerly known as Tipex Industries Sdn Bhd (KNMPPM)

KNMPPM was incorporated in Malaysia on 10 March 2005 and has not commenced operations since its date of incorporation. KNMPPM has an authorized share capital of RM100,000.00 divided into 100,000 shares of RM1.00 each, of which 2 ordinary shares are issued and fully paid up. KNMPPM is intended to operate from the Company's plant in Bukit Rambai, Melaka, and be involved principally in the manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies, for the oil, gas and petrochemical industries.

- (iii) KNM Plant (Gebeng) Sdn Bhd, formerly known as Tank Maintenance Services (Malaysia) Sdn Bhd (KNMPPG)

KNMPPG was incorporated in Malaysia on 10 July 1995 and has not commenced operations since its date of incorporation. KNMPPG has an authorized share capital of RM100,000.00 divided into 100,000 shares of RM1.00 each, of which 2 ordinary shares are issued and fully paid up. KNMPPG shares were held equally by YBhg Dato' Abdul Rani bin Mohd Razalli and Lee Swee Eng, the Executive Chairman and Managing Director of the Company, from 10 July 1995 to 21 April 2005. KNMPPG is intended to operate from the Company's plant in Gebeng, Pahang, and be involved principally in the manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies, for the oil, gas and petrochemical industries.

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- (iv) KNM Plant (Bintulu) Sdn Bhd, formerly known as Incobeta Sdn Bhd (KNMPB)

KNMPB was incorporated in Malaysia on 16 February 2005 and has not commenced operations since its date of incorporation. KNMPB has an authorized share capital of RM100,000.00 divided into 100,000 shares of RM1.00 each, of which 2 ordinary shares are issued and fully paid up. KNMPB is intended to operate from the Company's plant in Bintulu, Sarawak, and be involved principally in the manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies, for the oil, gas and petrochemical industries.

- (6) As announced on 24 May 2005, 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. The approval from Bank Negara Malaysia is pending.

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)	12,012
Bank Overdraft	487
Bill Payable	6,117
Hire purchase liabilities	100
	<u>18,716</u>
Long term :	
Borrowings (secured)	28,380
MUNIF	116,000
Hire purchases liabilities	63
	<u>144,443</u>

The above inclusive of borrowing in foreign currency of RMB50.19 million.

The Exchange rates used is 1 RMB = RM 0.459.

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	65,695	249,223
GBP	111	804
SGD	65	150
EURO	6,880	34,381
JPY	32,734	1,175
		<u>285,733</u>

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.

The proposed first and final dividend of 3 sen or 6% per ordinary share of RM0.50 each less income tax of 28% in respect of the previous financial year ended 31 December 2004 which is subject to approval of the Company's shareholders at the Third Annual General Meeting to be held on 9 June 2005.

The entitlement to dividend is determined based on the record of depositors on 8 July 2005 and date payable is 10 August 2005.

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B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 March	31 March	31 March	31 March
	2005	2004	2005	2004
(a) Basic earnings per share				
Net Profit after taxation before negative goodwill (RM'000)	8,260	3,077	8,260	3,077
Consolidated profit after taxation after negative goodwill (RM'000)	8,883	3,077	8,883	3,077
Number of shares at the beginning of the period ('000)	145,912	44,000	145,912	44,000
Effects of share split ('000)	-	48,400	-	48,400
Effects of bonus issue ('000)	-	48,400	-	48,400
Effect of ESOS ('000)	1,170	-	1,170	-
Weighted average number of shares ('000)	147,082	140,800	147,082	140,800
Basic earnings per share (sen)	6.04	2.19	6.04	2.19

	Individual Quarter		Cumulative Quarter	
	31 March	31 March	31 March	31 March
	2005	2004	2005	2004
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	8,883	3,077	8,883	3,077
Weighted average number of shares as per above ('000)	147,082	140,800	147,082	140,800
Number of shares under ESOS ('000)	12,879	-	12,879	-
Number of shares would have been issued at fair value('000)	(9,586)	-	(9,586)	-
Weighted average number of shares - diluted ('000)	150,375	140,800	150,375	140,800
Fully diluted earnings per share (sen)	5.91	2.19	5.91	2.19

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 Directors resolution on 25 May 2005.