

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2005 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

| | Note | Individual Quarter | | Cumulative Year to date | |
|--|------|---------------------------------------|---------------------------------------|-------------------------|---------------------|
| | | 3 months ended 30.6.2005 RM'000 | 3 months ended 30.6.2004 RM'000 | 30.6.2005 RM'000 | 30.6.2004 RM'000 |
| Contract revenue | | 69,981 | 40,658 | 141,374 | 75,879 |
| Operating profit | | 11,876 | 5,160 | 23,783 | 10,348 |
| Financing costs | | (1,099) | (591) | (2,491) | (1,150) |
| Interest income | | 253 | 9 | 427 | 33 |
| Negative goodwill | | - | - | 623 | - |
| Share of profit of jointly controlled entity | A4 | 1,671 | - | 2,770 | - |
| Profit before tax | | 12,701 | 4,578 | 25,112 | 9,231 |
| Tax expense | | (2,778) | (637) | (6,304) | (2,213) |
| Net profit for the period | | 9,923 | 3,941 | 18,808 | 7,018 |
| Earnings per share: | | | | | |
| - Before negative goodwill (sen) | | 6.74 | 2.80 | 12.35 | 4.98 |
| - After negative goodwill (sen) | | 6.74 | 2.80 | 12.77 | 4.98 |
| - Diluted (sen) | | 6.59 | 2.80 | 12.49 | 4.98 |

The notes set out on pages 5 to 12 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

(Company No:521348-H)
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2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | NOTE | As at 30.6.2005 RM'000 | As at 31.12.2004 Audited RM'000 |
|--|------|------------------------------|--|
| Intangible Assets | | 478 | - |
| Property, plant and equipment | | 116,866 | 95,343 |
| Investment in jointly controlled entities | | 52,457 | 49,687 |
| | | <u>169,801</u> | <u>145,030</u> |
| Current assets | | | |
| Inventories | | 6,089 | 6,870 |
| Trade and other receivables | | 106,021 | 126,971 |
| Cash and cash equivalents | | 34,009 | 26,268 |
| | | <u>146,119</u> | <u>160,109</u> |
| Current liabilities | | | |
| Trade and other payables | | 35,083 | 27,610 |
| Borrowings | B9 | 16,149 | 20,646 |
| Provision for taxation | | 7,722 | 2,172 |
| Dividend payable | | 3,188 | - |
| | | <u>62,142</u> | <u>50,428</u> |
| Net current assets | | <u>83,977</u> | <u>109,681</u> |
| | | <u>253,778</u> | <u>254,711</u> |
| Financed by: | | | |
| Capital and reserves | | | |
| Share capital | | 73,793 | 72,956 |
| Share premium | | 1,349 | 804 |
| Revaluation reserve | | 6,735 | 6,735 |
| Retained profits | | 49,502 | 33,882 |
| | | <u>131,379</u> | <u>114,377</u> |
| Long term and deferred liabilities | | | |
| Borrowings | B9 | 115,359 | 133,351 |
| Deferred taxation | | 7,040 | 6,983 |
| | | <u>122,399</u> | <u>140,334</u> |
| | | <u>253,778</u> | <u>254,711</u> |
| Net tangible assets per share (RM) | | <u>0.89</u> | <u>0.78</u> |

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD**ENDED 30 June 2005**

(Unaudited)

| | No. of Shares 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 | 1,674 | 837 | 1,892 | - | - | 2,729 |
| Expenses not recognised in income statement | | | | | | |
| - Listing expenses | - | - | (1,347) | - | - | (1,347) |
| Net Profit for the period | - | - | - | - | 18,808 | 18,808 |
| Proposed Dividend | - | - | - | - | (3,188) | (3,188) |
| As at 30 June 2005 | 147,586 | 73,793 | 1,349 | 6,735 | 49,502 | 131,379 |

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 12 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
30 June 2005**

(Unaudited)

| | 30.6.2005 RM '000 | 30.6.2004 RM '000 |
|---|-------------------------|-------------------------|
| Cash flows from operating activities | | |
| Profit before tax | 25,112 | 9,231 |
| Adjustments for: | | |
| Negative goodwill | (623) | - |
| Depreciation | 3,723 | 3,166 |
| Interest expense | 2,625 | 2,878 |
| Interest income | (432) | (33) |
| Share of profit in jointly control entity | (2,770) | - |
| Operating profit before working capital change: | <u>27,635</u> | <u>15,242</u> |
| (Increase)/Decrease in working capital | | |
| Inventories | 870 | (577) |
| Trade and other receivables | 21,884 | (33,424) |
| Trade and other payables | 4,221 | (3,208) |
| Cash used in operations | | |
| Income taxes paid | (730) | (654) |
| Interest paid | (2,625) | (2,878) |
| Interest received | 432 | 33 |
| Net cash generated from/(used in) operating activities | <u>51,687</u> | <u>(25,466)</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (15,969) | (4,486) |
| Acquisition of subsidiary net of cash acquired (Note A) | (6,120) | - |
| Net cash used in investing activities | <u>(22,089)</u> | <u>(4,486)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of shares | 1,382 | - |
| Net (repayment)/proceeds from bill payable | (8,172) | (21,813) |
| Repayment of hire purchase liabilities: | | |
| Net proceeds from term loan | 16,598 | 4,536 |
| Net repayment to MUNIF | (31,000) | 80,000 |
| Net cash generated from financing activities | <u>(21,249)</u> | <u>58,332</u> |
| Net increase/(decrease) in cash and cash equivalent | 8,349 | 28,380 |
| Cash and cash equivalents at beginning of year | 25,169 | (10,923) |
| Cash and cash equivalents at end of period | <u>33,518</u> | <u>17,457</u> |
| | | |
| Cash & bank balances | 32,509 | 15,917 |
| Deposits in the licensed bank | <u>1,500</u> | <u>2,231</u> |
| | 34,009 | 18,148 |
| Bank overdraft | <u>(491)</u> | <u>(691)</u> |
| | <u>33,518</u> | <u>17,457</u> |

Note A

Acquisition of Sumber Amantech Sdn Bhd, MKE Engineering Sdn Bhd's Group (inclusive of Pancaran Ribu (M) Sdn Bhd, Hasil Wira Sdn Bhd and KMK Power Sdn Bhd), KNM Technical Services Sdn Bhd, KNM Plant (Melaka) Sdn Bhd, formerly known as Tipex Industries Sdn Bhd, KNM Plant (Gebeng) Sdn Bhd, formerly known as Tank Maintenance Services (Malaysia) Sdn Bhd and KNM Plant (Bintulu) Sdn Bhd, formerly known as Icobeta Sdn Bhd

During the period, the Group acquired Sumber Amantech Sdn Bhd and MKE Engineering Sdn Bhd's Group, KNM Technical Service Sdn Bhd, KNM Plant (Melaka) Sdn Bhd, KNM Plant (Gebeng) Sdn Bhd and KNM Plant (Bintulu) Sdn Bhd

| | RM '000 |
|---|--------------|
| Property, plant & equipment | 9,277 |
| Inventories | 90 |
| Receivables | 962 |
| Payables and accruals | (3,252) |
| Borrowings | (750) |
| Provision for taxation | (4) |
| Deferred taxation | (58) |
| Cash and Bank | 75 |
| Bank Overdraft | (395) |
| Net assets acquired | <u>5,945</u> |
| Negative Goodwill on acquisition | <u>(145)</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 12 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 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 those stated below:

| | |
|---|----------------------|
| | RM’000 |
| Balance of MUNIF outstanding as at 1 January 2005 | 122,000 |
| MUNIF Repaid | <u>(31,000)</u> |
| Balance of MUNIF outstanding as at 30 June 2005 | <u><u>91,000</u></u> |

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As at 30 June 2005, the amount outstanding for Murabahah Underwritten Note Issuance Facility (“MUNIF”) /Islamic Medium Term Notes (“IMTN”) was RM91.0 million out of the limit of RM150.0 million, mainly used 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, 2,421,300 shares were allotted. After taking into account these new shares, the issued and paid up capital of the Company was increased to 147,621,300. Total number of unexercised share option as at date of report was 12,705,900.

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 |
|---|---------------------------------------|---------------------------------------|
| | 6 months ended 30.6.2005 RM’000 | 6 months ended 30.6.2005 RM’000 |
| Process equipment | 139,434 | 23,328 |
| Terminal, refineries and process plant | 969 | 66 |
| Steel structural system | 137 | 29 |
| Process maintenance | 834 | 360 |
| | <hr/> | <hr/> |
| | 141,374 | 23,783 |

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 changes in 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 | 8,870 | 100,000 |
| Investment | - | 10,000 |
| | <u>8,870</u> | <u>110,000</u> |

A14. 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 expenses | 850 |
| <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,** | |
| -General construction and civil works | 4,483 |
| Inter Merger Trading Sdn Bhd,** | |
| -Supply of production materials and fixed assets | 48 |
| <i>**a company in which Inter Merger Sdn Bhd is a holding company</i> | |
| KNM-DP Fabricators Sdn Bhd, an associated company | |
| - Provision of fabrication works | 888 |
| - Reimbursement of site and maintenance expenses | (240) |

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

B1. Review of performance

The Group achieved revenue of RM141.37 million and profit before tax of RM25.11 million for the period of six months ended 30 June 2005. 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 RM69.98 million and profit before taxation of RM12.70 million for the second quarter ended 30 June 2005 were comparable to first quarter's revenue of RM71.39 million and profit before taxation of RM12.41 million respectively.

B3. Current year prospects

The Board expects the Group's results 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

| | 6 months ended 30.6.2005 RM'000 | 6 months ended 30.6.2004 RM'000 |
|-----------------------|--|--|
| Income Tax expense :- | | |
| Current | 6,304 | 2,856 |
| Prior period | - | (643) |
| | <u>6,304</u> | <u>2,213</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

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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 announced on 12 August 2005, the Company submitted an application to the Securities Commission for the proposed transfer of the listing and quotation for its entire issued and paid-up share capital from the Second Board to the Main Board of Bursa Malaysia Securities Berhad (Proposed Transfer Listing). The Proposed Transfer is subject to the approval of the:-
- (a) Securities Commission;
 - (b) Bursa Malaysia Securities Berhad; and
 - (c) any other relevant authorities
- (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 | (7,346) | 844 |
| Listing expenses | 1,500 | (1,864) | (364) |
| Working capital | 298 | (298) | - |
| Total | <u>21,065</u> | <u>(20,382)</u> | <u>683</u> |

As approved on 29 July 2005, the Board of Directors has resolved to extend the period for the utilization of its IPO proceeds to finance its Enterprise Resources Planning system and research and development activities, from 31 July 2005 to 31 July 2006.

- (3) As announced on 25 May 2005, KNM International Sdn Bhd (KNMI), a wholly-owned subsidiary of KNM had incorporated on 24 May 2005 a wholly-owned subsidiary KNM Oil & Gas (B) Sdn Bhd (KNM Brunei).

KNM Brunei was incorporated in Brunei Darussalam on 10 May 2005 and has not commenced operations since its date of incorporation. KNM Brunei has an authorized share capital of B\$500,000.00 divided into 500,000 ordinary shares of B\$1.00 each, of which 100,000 ordinary shares are issued and fully paid up. KNMI has subscribed for the 99,000 ordinary shares, while the balance 1,000 ordinary shares have been subscribed by Mr Chew Fook Sin, a director of the Company. KNM Brunei is intended to be involved principally in the design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialized structural assemblies and module assemblies for the oil, gas and petrochemical industries, as well as support KNMI in marketing KNMI's products and services in Brunei.

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- (4) 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. Further to the announcement, the Company had been granted on 4 July 2005 the business license by the Chinese authorities with investment amount of USD12.6 million. 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) | 15,567 |
| Bank Overdraft | 491 |
| Bill Payable | 1 |
| Hire purchase liabilities | 90 |
| | <u>16,149</u> |
| Long term : | |
| Borrowings (secured) | 24,313 |
| MUNIF | 91,000 |
| Hire purchases liabilities | 46 |
| | <u>115,359</u> |

The above inclusive of borrowing in foreign currency of RMB48.97 million and EURO3.60 million.

The Exchange rates used is 1 RMB = RM 0.459, 1EURO= RM4.83.

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 | 49,801 | 188,859 |
| GBP | 651 | 4,501 |
| EURO | 6,472 | 30,752 |
| JPY | 28,235 | 979 |
| | | <u>225,091</u> |

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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 was approved by Company's shareholders at the Third Annual General Meeting dated 9 June 2005.

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

B13. Earnings per share

| | Individual Quarter | | Cumulative Quarter | |
|---|--------------------|-----------------|--------------------|-----------------|
| | 30 June 2005 | 30 June 2004 | 30 June 2005 | 30 June 2004 |
| (a) Basic earnings per share | | | | |
| Net Profit after taxation before negative goodwill (RM'000) | 9,923 | 3,941 | 18,185 | 7,018 |
| Consolidated profit after taxation after negative goodwill (RM'000) | 9,923 | 3,941 | 18,808 | 7,018 |
| 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) | 1,391 | - | 1,391 | - |
| Weighted average number of shares ('000) | 147,303 | 140,800 | 147,303 | 140,800 |
| Basic earnings per share (sen) | 6.74 | 2.80 | 12.77 | 4.98 |

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| | Individual Quarter | | Cumulative Quarter | |
|---|--------------------|-----------------|--------------------|-----------------|
| | 30 June 2005 | 30 June 2004 | 30 June 2005 | 30 June 2004 |
| (b) Diluted earnings per share | | | | |
| Net Profit attributable to shareholders (RM'000) | 9,923 | 3,941 | 18,808 | 7,018 |
| Weighted average number of shares as per above ('000) | 147,303 | 140,800 | 147,303 | 140,800 |
| Number of shares under ESOS ('000) | 12,741 | - | 12,741 | - |
| Number of shares would have been issued at fair value('000) | (9,483) | - | (9,483) | - |
| Weighted average number of shares - diluted ('000) | 150,561 | 140,800 | 150,561 | 140,800 |
| Fully diluted earnings per share (sen) | 6.59 | 2.80 | 12.49 | 4.98 |

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 on 22 August 2005.