

KNM GROUP BERHAD

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

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

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 30.9.2005 RM'000	3 months ended 30.9.2004 RM'000	30.9.2005 RM'000	30.9.2004 RM'000
Contract revenue		104,904	46,533	246,278	122,412
Operating profit		12,246	4,353	36,030	14,701
Financing costs		(146)	(547)	(2,637)	(1,697)
Interest income		236	117	663	150
Negative goodwill		-	-	623	-
Share of profit of jointly controlled entity	A4	1,856	-	4,625	-
Profit before tax		14,192	3,923	39,304	13,154
Tax expense		(3,113)	515	(9,417)	(1,698)
Net profit for the period		11,079	4,438	29,887	11,456
Earnings per share:					
- Basic (sen)		7.52	3.14	20.28	8.10
- Diluted (sen)		7.28	3.13	19.64	8.07

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

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2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	NOTE	As at 30.9.2005 RM'000	As at 31.12.2004 Audited RM'000
Intangible Assets		479	-
Property, plant and equipment		129,169	95,343
Investment in jointly controlled entities		63,729	49,687
		<u>193,377</u>	<u>145,030</u>
Current assets			
Inventories		5,913	6,870
Trade and other receivables		131,796	126,971
Cash and cash equivalents		15,433	26,268
		<u>153,142</u>	<u>160,109</u>
Current liabilities			
Trade and other payables		55,335	27,610
Borrowings	B9	24,632	20,646
Provision for taxation		10,143	2,172
		<u>90,110</u>	<u>50,428</u>
Net current assets		<u>63,032</u>	<u>109,681</u>
		<u>256,409</u>	<u>254,711</u>
Financed by:			
Capital and reserves			
Share capital		73,848	72,956
Reserves		68,944	41,421
		<u>142,792</u>	<u>114,377</u>
Long term and deferred liabilities			
Borrowings	B9	106,576	133,351
Deferred taxation		7,041	6,983
		<u>113,617</u>	<u>140,334</u>
		<u>256,409</u>	<u>254,711</u>
Net tangible assets per share (RM)		<u>0.96</u>	<u>0.78</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD**ENDED 30 September 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 and Other 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	1,785	892	2,017	-	-	2,909
Currency translation differences arising in the period	-	-	-	154	-	154
Expenses not recognised in income statement						
- Listing expenses	-	-	(1,347)	-	-	(1,347)
Net Profit for the period	-	-	-	-	29,887	29,887
Proposed Dividend	-	-	-	-	(3,188)	(3,188)
As at 30 September 2005	147,697	73,848	1,474	6,889	60,581	142,792

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.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2005

(Unaudited)

	30.9.2005 RM '000	30.9.2004 RM '000
Cash flows from operating activities		
Profit before tax	39,304	13,154
Adjustments for:		
Negative goodwill	(623)	-
Depreciation	6,040	4,834
Interest expense	3,912	3,926
Interest income	(673)	(54)
Share of profit in jointly control entity	(4,625)	-
Currency translation difference	154	-
Operating profit before working capital changes:	<u>43,489</u>	<u>21,860</u>
(Increase)/Decrease in working capital		
Inventories	1,047	(562)
Trade and other receivable:	(3,891)	(44,392)
Trade and other payables	24,472	(1,772)
Cash used in operations		
Income taxes paid	(1,421)	(1,218)
Interest paid	(3,912)	(3,926)
Interest received	673	54
Net cash generated from/(used in) operating activities	<u>60,457</u>	<u>(29,956)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(30,589)	(8,065)
Acquisition of subsidiary net of cash acquired (Note A)	(6,120)	-
Investment in a jointly controlled entity	(9,416)	-
Net cash used in investing activities	<u>(46,125)</u>	<u>(8,065)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	1,563	15,400
Net (repayment)/proceeds from bill payable	(7,215)	(21,058)
Repayment of hire purchase liabilities:	(86)	(4,409)
Net proceeds from term loan	16,654	5,677
Net repayment to MUNIF	(32,000)	115,000
Dividend paid	(3,188)	(2,200)
Net cash generated from financing activities	<u>(24,272)</u>	<u>108,410</u>
Net (decrease)/increase in cash and cash equivalent	(9,940)	70,389
Cash and cash equivalents at beginning of year	25,169	(10,923)
Cash and cash equivalents at end of period	<u>15,229</u>	<u>59,466</u>
Cash & bank balances	15,434	59,248
Deposits in the licensed bank	15,434	2,089
Bank overdraft	(205)	(1,871)
	<u>15,229</u>	<u>59,466</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	(145)
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 September 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	130,000
MUNIF Repaid	<u>(40,000)</u>
Balance of MUNIF outstanding as at 30 September 2005	<u><u>90,000</u></u>

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As at 30 September 2005, the amount outstanding for Murabahah Underwritten Note Issuance Facility (“MUNIF”) /Islamic Medium Term Notes (“IMTN”) was RM90.0 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, 4,121,100 shares were exercised and 758,900 options were lapsed primarily due to staff resignation. After taking into account these new shares, the issued and paid up capital of the Company was increased to 149,321,000. Total number of unexercised share option as at date of report was 10,247,200.

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
	9 months ended	9 months ended
	30.9.2005	30.9.2005
	RM’000	RM’000
Process equipment	244,155	35,530
Terminal, refineries and process plant	969	66
Steel structural system	137	29
Process maintenance	1,017	405
	<hr/>	<hr/>
	246,278	36,030

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..

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	5,337	75,269
Investment	-	20,000
	<u>5,337</u>	<u>95,269</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 expense	1,314
<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	9,264
Inter Merger Trading Sdn Bhd,**	
-Supply of production materials and fixed assets	57
<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	2,576
- 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 RM246.28 million and profit before tax of RM39.30 million for the current quarter ended 30 September 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 RM104.90 million and profit before taxation of RM14.19 million for the third quarter ended 30 September 2005 were higher by 49.90% and 11.73% compared to second quarter's revenue of RM 69.98 million and profit before taxation of RM12.70 million respectively.

The increase in net profit before tax was mainly due to higher turnover recognised as a result of additional manufacturing capacity and job orders secured.

B3. Current year prospects

The Board expects the Group's results from its operation be in line with this current quarter for the remaining period.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	9 months ended 30.9.2005 RM'000	9 months ended 30.9.2004 RM'000
Income Tax expense :-		
Current	9,347	2,341
Prior period	70	(643)
	<u>9,417</u>	<u>1,698</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

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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; and
 (b) the approval-in-principle of Bursa Malaysia Securities Berhad (Bursa Securities); and
 (c) any other relevant authorities

Following the approval by the Securities Commission on 14 September 2005, Bursa Securities' approval-in-principle on 16 September 2005 and the fulfillment of all conditions for the Proposed Transfer Listing, the Proposed Transfer Listing from the Second Board to the Main Board of Bursa Securities under "Industrial Products" was effected on 30 September 2005.

- (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	(7,733)	457
Listing expenses	1,500	(1,864)	(364)
Working capital	298	(298)	-
Total	21,065	(20,769)	296

- (3) 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 was obtained on 25 August 2005.

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)	23,396
Bank Overdraft	205
Bill Payable	959
Hire purchase liabilities	<u>72</u>

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24,632

Long term :

Borrowings (secured)	16,541
MUNIF	90,000
Hire purchases liabilities	<u>35</u>
	<u>106,576</u>

The above inclusive of borrowing in foreign currency of RMB48.16 million and EURO3.60 million.

The Exchange rates used are 1 RMB = RM 0.4666 and 1 EURO = RM4.5304

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	76,904	289,229
GBP	167	1,130
EURO	23,872	110,807
SGD	857	1,924
AUD	8,935	25,130
		<u>428,220</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.

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B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	30 September 2005	30 September 2004	30 September 2005	30 September 2004
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	11,079	4,438	29,887	11,456
Number of shares at the beginning of the period ('000)	145,911	44,000	145,911	44,000
Effects of share split ('000)	-	48,400	-	48,400
Effects of bonus issue ('000)	-	48,400	-	48,400
Effect of ESOS ('000)	1,487	-	1,487	-
Effect of Private Placement	-	603	-	603
Weighted average number of shares ('000)	147,398	141,403	147,398	141,403
Basic earnings per share (sen)	7.52	3.14	20.28	8.10

	Individual Quarter		Cumulative Quarter	
	30 September 2005	30 September 2004	30 September 2005	30 September 2004
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	11,079	4,438	29,887	11,456
Weighted average number of shares as per above ('000)	147,398	141,403	147,398	141,403
Number of shares under ESOS ('000)	11,856	2,017	11,856	2,017
Number of shares would have been issued at fair value('000)	(7,053)	(1,501)	(7,053)	(1,501)
Weighted average number of shares - diluted ('000)	152,201	141,919	152,201	141,919
Fully diluted earnings per share (sen)	7.28	3.13	19.64	8.07

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 on 22 November 2005.