

KNM GROUP BERHAD

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

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

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 31.12.2005 RM'000	3 months ended 31.12.2004 RM'000	31.12.2005 RM'000	31.12.2004 RM'000
Contract revenue		97,605	49,647	343,883	172,059
Operating profit		16,318	(68)	52,347	14,635
Financing costs		(2,459)	(2,089)	(5,096)	(3,788)
Interest income		155	91	818	241
Negative goodwill		-	-	623	-
Share of profit of jointly controlled entity	A4	829	1,847	5,454	1,847
Profit before tax		14,843	(219)	54,146	12,935
Tax expense		(3,592)	3,229	(13,008)	1,531
Net profit for the period		11,251	3,010	41,138	14,466
Earnings per share:					
- Basic (sen)		7.61	2.11	27.83	10.16
- Diluted (sen)		7.40	2.09	27.06	10.06

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 31.12.2005 RM'000	As at 31.12.2004 Audited RM'000
Intangible Assets		11	-
Property, plant and equipment		139,343	95,343
Investment in jointly controlled entities		64,558	49,687
		<u>203,912</u>	<u>145,030</u>
Current assets			
Inventories		4,349	6,870
Trade and other receivables		206,633	126,971
Cash and cash equivalents		17,511	26,268
		<u>228,493</u>	<u>160,109</u>
Current liabilities			
Trade and other payables		145,771	27,610
Borrowings	B9	22,242	20,646
Provision for taxation		9,309	2,172
		<u>177,322</u>	<u>50,428</u>
Net current assets		<u>51,171</u>	<u>109,681</u>
		<u>255,083</u>	<u>254,711</u>
Financed by:			
Capital and reserves			
Share capital		74,806	72,956
Reserves		82,579	41,421
		<u>157,385</u>	<u>114,377</u>
Long term and deferred liabilities			
Borrowings	B9	87,162	133,351
Deferred taxation		10,536	6,983
		<u>97,698</u>	<u>140,334</u>
		<u>255,083</u>	<u>254,711</u>
Net tangible assets per share (RM)		<u>1.05</u>	<u>0.78</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD**ENDED 31 DECEMBER 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	3,700	1,850	4,181	-	-	6,031
Currency translation differences arising in the period	-	-	-	374	-	374
Expenses not recognised in income statement						
- Listing expenses	-	-	(1,347)	-	-	(1,347)
Net Profit for the year	-	-	-	-	41,138	41,138
Proposed Dividend	-	-	-	-	(3,188)	(3,188)
As at 31 December 2005	149,612	74,806	3,638	7,109	71,832	157,385

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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KNM GROUP BERHAD(Company No. 521348-H)
(Incorporated in Malaysia)**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED****31 DECEMBER 2005****(Unaudited)**

	31.12.2005	31.12.2004
	RM	RM
	'000	'000
Cash flows from operating activities		
Profit before tax	54,146	12,935
Adjustments for:		
Negative goodwill	(1,034)	-
Depreciation	8,705	2,161
Interest expense	5,390	3,566
Interest income	(1,001)	(241)
Share of profit in jointly control entity	(5,454)	(1,847)
Currency translation difference	374	-
Revaluation deficit on property, plant and equipment	-	344
Property, plant and equipment written off	-	48
Gain on disposal of property, plant and equipment	(12)	-
Operating profit before working capital change:	<u>61,114</u>	<u>16,966</u>
(Increase)/Decrease in working capital		
Inventories	2,631	(380)
Trade and other receivables	(78,675)	(40,946)
Trade and other payables	115,203	19,520
Cash used in operations		
Income taxes paid	(1,842)	(1,516)
Interest paid	(340)	(2,616)
Interest received	1,001	241
Net cash generated from/(used in) operating activities	<u>99,092</u>	<u>(8,731)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(43,428)	(10,374)
Acquisition of subsidiary net of cash acquired (Note A)	(6,120)	-
Investment in a jointly controlled entity	(9,416)	(47,840)
Decrease in pledged deposit placed with licensed bank	-	50
Proceeds from disposal of property, plant and equipment	12	-
Net cash used in investing activities	<u>(58,952)</u>	<u>(58,164)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	4,684	16,421
Net (repayment)/proceeds from bill payable	(2,839)	(32,750)
Repayment of hire purchase liabilities	(110)	(4,269)
Net proceeds from term loan	6,844	6,768
Net repayment to MUNIF	(50,000)	122,000
Dividend paid	(3,188)	(2,200)
Interest expenses	(5,050)	(2,933)
Net cash generated from financing activities	<u>(49,659)</u>	<u>103,037</u>
Net (decrease)/increase in cash and cash equivalent	(9,519)	36,142
Cash and cash equivalents at beginning of year	25,169	(10,973)
Cash and cash equivalents at end of year:	<u>15,650</u>	<u>25,169</u>
Cash & bank balances	17,511	19,575
Deposits in the licensed bank	-	6,693
	<u>17,511</u>	<u>26,268</u>
Bank overdraft	(1,861)	(1,099)
	<u>15,650</u>	<u>25,169</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	
Receivables	1,015
Payables and accruals	(2,748)
Borrowings	(750)
Provision for taxation	(4)
Deferred taxation	(58)
Cash and Bank	75
Bank Overdraft	(395)
Net assets acquired	<u>6,412</u>
Negative Goodwill on acquisition	(612)
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>

Notes to the quarterly Interim Financial Report – 31 December 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 and withdrawal	<u>(50,000)</u>
Balance of MUNIF outstanding as at 31 December 2005	<u><u>72,000</u></u>

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As at 31 December 2005, the amount outstanding for Murabahah Underwritten Note Issuance Facility (“MUNIF”) /Islamic Medium Term Notes (“IMTN”) was RM72.0 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 and 5,034,080 ordinary shares of RM0.50 each were granted to eligible employees at an option price of RM1.63 and RM2.88 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, 4,875,600 shares were exercised and 1,040,780 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 150,075,600 and total number of unexercised share options as at date of report was 14,244,900.

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
	12 months ended	12 months ended
	31.12.2005	31.12.2005
	RM’000	RM’000
Process equipment	342,293	52,127
Terminal, refineries and process plant	397	66
Steel structural system	137	29
Process maintenance	1,056	125
	<u>343,883</u>	<u>52,347</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 other than those disclosed under item no. B8.

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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 under than those disclosed in item no. 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	4,226	38,200
Investment	49,561	38,747
	<u>53,787</u>	<u>76,947</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	1,733
<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	18,543
Inter Merger Trading Sdn Bhd,**	
-Supply of production materials and fixed assets	64
<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	7,923
- 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 a revenue of RM343.88 million and profit before tax of RM54.15 million for the current year ended 31 December 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 RM97.61 million and profit before taxation of RM14.84 million for the fourth quarter ended 31 December 2005 were lower and higher by 6.95% and 4.58% compared to third quarter's revenue of RM104.9 million and profit before taxation of RM14.19 million respectively.

The increase in net profit before tax was mainly due to lower overall operating cost.

B3. Current year prospects

The Board is confident that the Group's results for the year 2006 will remain profitable.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	12 months ended 31.12.2005 RM'000	12 months ended 31.12.2004 RM'000
Income Tax expense :-		
Current	8,981	1,556
Prior period	22	(2,080)
Deferred taxation	4,005	(1,007)
	<u>13,008</u>	<u>(1,531)</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 3 January 2006, KNM International Sdn Bhd (KNMI), a wholly-owned subsidiary of KNM proposed to acquire entire equity interest in FBM-Hudson Italiana Spa, a company incorporated in Italy comprising 228,000 fully paid-up ordinary shares of Euro dollars 1.00 each from Hamon & CIE International SA, a company incorporated in Belgium for a consideration of Euro 1,750,180. The shares consideration is equivalent to RM7,881,061 based on the exchange rate of RM4.503:Euro1.00. As an integral part of the Proposed FBM Acquisition, KNM shall also purchase the entire Balance Lenders' Debt based on a cash consideration of 30% of the Balance Lenders' Debt or Euro 5,006,968 (equivalent to RM22,546,378) (KNMI Debt Purchase). Therefore, the total consideration for the Proposed FBM Acquisition (including the KNMI Debt Purchase) is Euro 6,757,148 or equivalent to RM30,427,437 (Total Consideration).

The proposed FBM acquisition is subject to and conditional upon the approvals from the following:-

- (i) Bank Negara Malaysia;
 - (ii) Shareholders of KNM; and
 - (iii) The acceptance of each of the Lender of the KNMI Debt purchase by 31 January 2006
- (2) As announced on 30 December 2005, KNM Process Systems Sdn Bhd, a wholly-owned subsidiary of KNM of 51% (Plus 1 share) equity interest in KNM Pty Ltd (formerly known as Hudson Products Pacific Pty Ltd), a company incorporated in Australia comprising 2,193,001 fully paid-up ordinary shares and 1 partly paid-up ordinary share from Process Heat Transfer Pty Ltd for a cash consideration USD3,000,000.

The HPP acquisition was completed on 18 January 2006.

- (3) The utilisation of IPO proceeds was made as follows:

	Total Proceeds	Utilised	Unutilised
	RM'000	RM'000	RM'000
Repayment of term loan	11,077	(10,874)	203
Capital expenditure	8,190	(7,972)	218
Listing expenses	1,500	(1,864)	(364)
Working capital	298	(298)	-
Total	21,065	(21,008)	57

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)	14,989
Bank Overdraft	1,862
Bill Payable	5,334
Hire purchase liabilities	57
	<u>22,242</u>
Long term :	
Borrowings (secured)	15,137
MUNIF	72,000
Hire purchases liabilities	25
	<u>87,162</u>

The above inclusive of borrowing in foreign currency of RMB29.83 million and EURO3.60 million.

The Exchange rates used are 1 RMB = RM 0.4693 and 1 EURO = RM4.4759

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	80,396	300,838
GBP	102	672
EURO	12,871	59,941
SGD	847	1,903
AUD	7,807	21,895
JPY	46,172	1,552
		<u>386,801</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

The Directors recommend a final dividend of 5 sen per 50 sen ordinary shares less tax amounting to RM5,386,025 assuming based on 149,611,800 ordinary shares outstanding at 31 December 2005.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	11,251	3,010	41,138	14,466
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)	1,883	84	1,883	84
Effect of Private Placement	-	1,555	-	1,555
Weighted average number of shares ('000)	<u>147,795</u>	<u>142,439</u>	<u>147,795</u>	<u>142,439</u>
Basic earnings per share (sen)	7.61	2.11	27.83	10.16

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	Individual Quarter		Cumulative Quarter	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	11,251	3,010	41,138	14,466
Weighted average number of shares as per above ('000)	147,795	142,439	147,795	142,439
Number of shares under ESOS ('000)	10,241	5,055	10,241	5,055
Number of shares would have been issued at fair value('000)	(6,007)	(3,762)	(6,007)	(3,762)
	<hr/>			
Weighted average number of shares - diluted ('000)	152,029	143,732	152,029	143,732
Fully diluted earnings per share (sen)	7.40	2.09	27.06	10.06

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 23 February 2006.