

KNM GROUP BERHAD

(Company No:521348-H)

(Incorporated in Malaysia)

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

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Individual Quarter		Cumulative Year to date	
	3 months ended 30.9.2008 RM'000	3 months ended 30.9.2007 RM'000	30.9.2008 RM'000	30.9.2007 RM'000
Contract revenue	<u>746,204</u>	<u>386,330</u>	<u>1,676,819</u>	<u>911,349</u>
Operating profit	158,294	74,342	342,867	157,734
Financing costs	(31,024)	(3,010)	(49,236)	(7,342)
Interest income	548	679	5,138	1,125
Goodwill written off	-	-	-	(1,050)
Profit before tax	<u>127,818</u>	<u>72,011</u>	<u>298,769</u>	<u>150,467</u>
Tax expense	(24,524)	(12,109)	(45,060)	(15,729)
Net profit for the period	<u>103,294</u>	<u>59,902</u>	<u>253,709</u>	<u>134,738</u>
Attributable to:				
Equity holders of the parent	103,416	61,005	253,831	136,396
Minority interest	<u>(122)</u>	<u>(1,103)</u>	<u>(122)</u>	<u>(1,658)</u>
	<u>103,294</u>	<u>59,902</u>	<u>253,709</u>	<u>134,738</u>
Earnings per share:				
- Basic (sen)	2.73	1.66	6.71	3.71
- Diluted (sen)	2.70	1.64	6.63	3.66

The notes set out on pages 5 to 13 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 30.9.2008	As at 31.12.2007
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets	1	1,568,744	6,672
Property, plant and equipment		617,535	468,973
Other investment		4,477	2,474
Prepaid lease payments		25,199	15,826
Deferred Tax Asset		44,102	37,664
		<u>2,260,057</u>	<u>531,609</u>
Current assets			
Inventories		85,252	62,185
Contracts work in progress		543,672	335,955
Trade and other receivables		586,265	211,970
Cash and cash equivalents		402,990	105,330
		<u>1,618,179</u>	<u>715,440</u>
TOTAL ASSETS		<u>3,878,236</u>	<u>1,247,049</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		989,095	261,646
Reserves		797,050	293,824
		<u>1,786,145</u>	<u>555,470</u>
Minority interest		<u>2,477</u>	<u>199</u>
Total Equity		<u>1,788,622</u>	<u>555,669</u>
Non-current liabilities			
Long term payable		28,332	33,345
Long service leave liability		3,077	2,832
Borrowings	B9	265,592	45,007
Deferred taxation		136,851	53,855
		<u>433,852</u>	<u>135,039</u>
Current liabilities			
Payables and accruals		618,008	286,057
Customers advance for contract work in progress		8,874	24,322
Borrowings	B9	976,243	220,907
Current tax liabilities		52,637	25,055
		<u>1,655,762</u>	<u>556,341</u>
Total liabilities		<u>2,089,614</u>	<u>691,380</u>
TOTAL EQUITY AND LIABILITIES		<u>3,878,236</u>	<u>1,247,049</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.45</u>	<u>0.53</u>

The notes set out on pages 5 to 13 form an integral part of and should be read in conjunction with this interim financial report

Note 1**Intangible Asset arising from the acquisition of Borsig Group**

Based on Borsig Group's unaudited management accounts as at the date of acquisition, the computation of goodwill is as follow:-

	RM'000
Non-current assets	
Intangible Assets	2,171
Property, plant and equipment	60,488
Other investment	1,950
Deferred Tax Asset	9,873
Current Asset	
Inventories	26,084
Contracts work in progress	27,632
Trade and other receivables	245,250
Cash and cash equivalents	204,710
Non-current liabilities	
Borrowings	(74,534)
Deferred taxation	(56,207)
Current liabilities	
Payables and accruals	(197,682)
Customers advance for contract work in progress	(16,973)
Borrowings	(16,831)
Current tax liabilities	(17,923)
Minority interest	(1,830)
Net identifiable assets and liabilities	<u>196,178</u>
Purchase consideration	1,756,399
Goodwill on acquisition of Borsig Group	<u><u>1,560,221</u></u>

Note

The Management of the Group is currently undertaking an exercise to ascertain the fair value of the tangible and intangible assets of Borsig Group and the purchase price allocation. This exercise is expected to be completed by Dec 2008.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
ENDED 30 September 2008

(Unaudited)

	← Attributable to equity holders of the parent →							
	No. of Shares 000	Share Capital RM'000	← Non-Distributable →			Distributable Reserve (Accumulated Loss) / Retained Profit RM'000		Minority Interest RM'000
Share Premium RM'000			Revaluation and Other Reserve RM'000	Total 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	-	-	-	-	-	-	2,599	2,599
Acquisition of minority interest	-	-	-	-	-	-	(199)	(199)
Issue of shares pursuant to:								
- ESOS	8,666	2,166	1,558	-	-	3,724	-	3,724
- Bonus issue	2,637,394	659,349	(659,349)	-	-	-	-	-
Right Issue	263,736	65,934	989,010			1,054,944		1,054,944
Expenses not recognised in income statement								
- Share issue expenses	-	-	(12,965)	-	-	(12,965)	-	(12,965)
Share-based payments	-	-	-	383	-	383	-	383
Transfer to share premium for share options exercised	-	-	328	(328)	-	-	-	-
Currency translation differences arising in the period	-	-	-	(38,177)	-	(38,177)	-	(38,177)
Net Profit for the period	-	-	-	-	253,831	253,831	(122)	253,709
Dividend paid	-	-	-	-	(31,065)	(31,065)	-	(31,065)
As at 30 September 2008	3,956,379	989,095	319,153	(46,234)	524,131	1,786,145	2,477	1,788,622

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 September 2008

(Unaudited)

	30.9.2008	31.12.2007
	RM	RM
	'000	'000
Net cash (used in)/generated from operating activities	98,384	80,266
Net cash used in investing activities	(1,660,084)	(116,843)
Net cash generated from financing activities	1,863,185	76,761
Net increase in cash and cash equivalents	301,485	40,184
Cash and cash equivalents at beginning of period/year	98,233	58,049
Cash and cash equivalents at end of period/year	399,718	98,233
Cash & bank balances	221,717	73,483
Deposits with financial institutions	19,515	3,780
Deposits with licensed banks	161,758	28,067
	402,990	105,330
Bank overdraft	(3,272)	(7,097)
	399,718	98,233

The notes set out on pages 5 to 13 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 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 drawdown	<u>85,000</u>
Balance of ICP/IMTN outstanding as at 30 September 2008	<u><u>285,000</u></u>

As at 30 September 2008, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") is RM285.0 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). On 27 March 2008, an option of 300,000 ordinary shares of RM0.25 each was granted to a Non-Executive Director at an option price of RM4.58 pursuant to the Company's Employees' Share Option Scheme (ESOS). At the date of this report, 8,665,700 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 3,956,378,475 and total number of unexercised share options is 48,324,360 as at date of report.

A8. Dividend Paid

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

A9. Segment information

Segmental analysis of the revenue and result:-

Business Segment:	Revenue	Operating Profit
	9 months ended 30.9.2008 RM'000	9 months ended 30.9.2008 RM'000
Process equipment	1,676,622	342,778
Others	197	89
	<u>1,676,819</u>	<u>342,867</u>

Geographical segments:	Revenue	Operating Profit
	9 months ended 30.9.2008 RM'000	9 months ended 30.9.2008 RM'000
Malaysia	635,728	164,779
Overseas	1,041,091	178,088
Total	<u>1,676,819</u>	<u>342,867</u>

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.

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	119,085	87,554
Investment	50,949	126,817
	<u>170,034</u>	<u>214,371</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	1,375
* 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	12,321
Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	88
** 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	5,397
*** a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors and shareholders	
Nasser Hazza ****	
- General construction, civil and related mechanical and engineering work	4,938

**** Nasser Hazza is an entity controlled by Mohammed Nasser Hazza Al Fehaid Al Subaei, a director of KNM Saudi Limited Co

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

B1. Review of performance

The Group achieved revenue of RM1.68 billion and profit before tax and minority interest of RM298.77 million for the current period ended 30 September 2008. The revenue increased mainly due to the additional manufacturing capacity and job orders.

B2. Variation of results against preceding quarter

The Group's revenue of RM746.20 million and net profit after taxation and minority interest of RM103.42 million for the third quarter ended 30 September 2008 were higher by 24.49% and 7.40% to second quarter's revenue of RM599.40 million and net profit after taxation and minority interest of RM96.29 million respectively. The increase in net profit after taxation was mainly due to contribution from Borsig Group for the full quarter.

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

	9 months ended 30.9.2008 RM'000	9 months ended 30.9.2007 RM'000
Income Tax expense :-		
Current	24,440	8,830
Prior period	(8,015)	(1,972)
Deferred tax	28,635	8,871
	<u>45,060</u>	<u>15,729</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 but not completed

(1) KNM Group Berhad had on 4 February 2008 announced that it is inter alia proposing to undertake the following exercises:-

- (a) 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”)

The Proposed Exchangeable Bonds Issue which was duly approved by Company’s shareholders and Securities Commission in April 2008 and May 2008 respectively and due for implementation by 29 November 2008, has been deferred for the time being since KNM has received and accepted an offer from Malayan Banking Berhad (MBB) on 15 October 2008 for a 3-year term loan facility of Euro Dollar 150.0 million to fully settle the balance bridging loan facility granted by MBB and complete the acquisition of Bosig Beteiligungsverwaltungsgesellschaft mbH (Borsig) on 6 June 2008.

In the Meantime, the Company, through its Advisors, Aseambankers Malaysia Berhad, had on 14 November 2008 applied to SC for an extension of time to implement the Proposed Exchangeable Bond Issue in view of the current economic situation.

- (2) The Company had on 9 January 2008 announced that it 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 still pending the fulfillment of certain condition precedents by the Vendor.

- (3) 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 finalized due to the restructuring of Sofinter.

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(4) The utilisation of right issue proceeds are as follows:

	Total Proceeds RM'000	Utilised RM'000	Available RM'000
Potential strategic acquisition and/or working capital purposes	1,024,944	(1,024,944)	-
Defray estimated expenses for the Right Issue, Bonus Issue and Exchangeable Bond Issue	30,000	(10,443)	19,557
Total	1,054,944	(1,035,387)	19,557

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)	4,361
Borrowings (unsecured) *	761,324
ICP/IMTN	150,000
Bank Overdraft	3,272
Bill Payable	57,286
	<u>976,243</u>
Long term :	
Borrowings (secured)	34,999
Borrowings (unsecured)	95,593
IMTN	135,000
	<u>265,592</u>
	<u>1,241,835</u>

* Subsequent to 30th September 2008, the Company has accepted the offer from Malayan Banking Berhad to convert the unsecured short term borrowings of RM748.41 million to a secured long term loan.

The above inclusive of borrowing in foreign currency of RMB51.75 million ,EURO173.63 million and CND1.15 million.

The Exchange rates used are 1 RMB = RM 0.5052 ,1 EURO = RM4.9894 and 1CND=RM3.3275

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 :-

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Currency	Contracted Amount '000	Equivalent Amount in RM'000
USD	147,895	481,981
GBP	2,090	13,930
EURO	224,673	1,111,496
SGD	3,688	9,175
AUD	211	625
JPY	204,217	6,955
RM	594	600
CHF	28	96
CAD	39,456	127,780
		1,752,638

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

There are no significant credit and market risks posed by the above off balance sheet financial instruments.

B11. Material litigation

As at the date of this announcement, there were no 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 September 2008	30 September 2007	30 September 2008	30 September 2007
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	103,416	61,005	253,831	136,396
Number of shares at the beginning of the period ('000)	1,046,583	257,782	1,046,583	257,782
Effect of ESOS ('000)	5,692	1,047	5,692	1,047
Effect of Bonus issue ('000)	2,637,394	2,896,440	2,637,394	2,896,440
Effect of Share Split ('000)	-	518,092	-	518,092
Effect of Right issue ('000)	95,641	-	95,641	-

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Weighted average number of shares ('000)	3,785,310	3,673,361	3,785,310	3,673,361
Basic earnings per share (sen)	2.73	1.66	6.71	3.71
	Individual Quarter	30 September	Cumulative Quarter	30 September
	2008	2007	2008	2007
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	103,416	61,005	253,831	136,396
Weighted average number of shares as per above ('000)	3,785,310	3,673,361	3,785,310	3,673,361
Number of shares under ESOS ('000)	48,324	61,595	48,324	61,595
Number of shares would have been issued at fair value('000)	(6,137)	(13,147)	(6,137)	(13,147)
Weighted average number of shares - diluted ('000)	3,827,497	3,721,809	3,827,497	3,721,809
Fully diluted earnings per share (sen)	2.70	1.64	6.63	3.66

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 on 26 November 2008.