

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2009 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Individual Quarter		Cumulative Year to date	
	3 months ended 30.6.2009 RM'000	3 months ended 30.6.2008 RM'000	30.6.2009 RM'000	30.6.2008 RM'000
Contract revenue	<u>439,257</u>	<u>599,401</u>	<u>964,710</u>	<u>930,616</u>
Operating profit	78,937	120,141	230,061	184,573
Financing costs	(13,811)	(13,593)	(45,487)	(18,212)
Interest income	186	2,961	5,700	4,590
Goodwill written off	-	-	-	-
Share of profit/(loss) of jointly controlled entities	(8)	-	(22)	-
Profit before tax	<u>65,304</u>	<u>109,509</u>	<u>190,252</u>	<u>170,951</u>
Tax expense	4,550	(13,218)	(23,105)	(20,536)
Net profit for the period	<u>69,854</u>	<u>96,291</u>	<u>167,147</u>	<u>150,415</u>
Attributable to:				
Equity holders of the parent	71,420	96,291	169,872	150,415
Minority interest	<u>(1,566)</u>	<u>-</u>	<u>(2,725)</u>	<u>-</u>
	<u>69,854</u>	<u>96,291</u>	<u>167,147</u>	<u>150,415</u>
Earnings per share:				
- Basic (sen)	1.82	2.60	4.32	4.07
- Diluted (sen)	1.81	2.59	4.32	4.05

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 SHEETS

(Unaudited)

	NOTE	As at 30.6.2009	As at 31.12.2008
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets		826,705	845,806
Goodwill		945,537	928,168
Property, plant and equipment		767,448	734,655
Other investment		5,584	4,932
Prepaid lease payments		13,452	18,022
Deferred Tax Asset		29,877	36,351
		<u>2,588,603</u>	<u>2,567,934</u>
Current assets			
Inventories		81,508	97,166
Contracts work in progress		571,915	616,548
Trade and other receivables		531,868	634,620
Cash and cash equivalents		477,461	516,303
		<u>1,662,752</u>	<u>1,864,637</u>
TOTAL ASSETS		<u>4,251,355</u>	<u>4,432,571</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		999,690	989,610
Treasury Shares		(23,989)	(21,006)
Reserves		959,672	845,289
		<u>1,935,373</u>	<u>1,813,893</u>
Minority interest		<u>4,794</u>	<u>6,224</u>
Total Equity		<u>1,940,167</u>	<u>1,820,117</u>
Non-current liabilities			
Long term payable		32,468	30,672
Long service leave liability		3,074	2,514
Loans and borrowings	B9	765,626	296,722
Deferred taxation		373,815	429,361
		<u>1,174,983</u>	<u>759,269</u>
Current liabilities			
Payables and accruals		466,858	540,509
Customers advance for contract work in progress		98,580	162,102
Loans and borrowings	B9	519,620	1,133,667
Current tax liabilities		51,147	16,907
		<u>1,136,205</u>	<u>1,853,185</u>
Total liabilities		<u>2,311,188</u>	<u>2,612,454</u>
TOTAL EQUITY AND LIABILITIES		<u>4,251,355</u>	<u>4,432,571</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.48</u>	<u>0.46</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
ENDED 30 June 2009

(Unaudited)

	← Attributable to equity holders of the parent →				Distributable Reserve		Minority Interest RM'000	Total equity RM'000
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000	Revaluation and Other Reserve RM'000	(Accumulated Loss) / Retained Profit RM'000	Total RM'000		
As at 1 January 2008	261,646	-	571	(8,112)	301,365	555,470	199	555,669
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	6,327	6,327
Acquisition of minority interest	-	-	-	-	-	-	(199)	(199)
Issue of shares pursuant to:								
- ESOS	2,682	-	1,558	-	-	4,240	-	4,240
- Bonus issue	659,348	-	(659,348)	-	-	-	-	-
Rights Issue	65,934	-	989,010	-	-	1,054,944	-	1,054,944
Share Buy Back	-	(21,006)	-	-	-	(21,006)	-	(21,006)
Expenses not recognised in income statement								
-Share issue expenses	-	-	(13,221)	-	-	(13,221)	-	(13,221)
Share-based payments	-	-	-	565	-	565	-	565
Transfer to share premium for share options exercised	-	-	569	(569)	-	-	-	-
Reduction of deferred tax liabilities arising from changes in deferred tax rate used	-	-	-	470	-	470	-	470
Currency translation differences arising in the period	-	-	-	(72,887)	-	(72,887)	48	(72,839)
Net Profit for the period	-	-	-	-	336,383	336,383	(151)	336,232
Dividend paid	-	-	-	-	(31,065)	(31,065)	-	(31,065)
As at 31 December 2008	989,610	(21,006)	319,139	(80,533)	606,683	1,813,893	6,224	1,820,117
Issue of shares pursuant to:								
- ESOS	10,080	-	-	-	-	10,080	-	10,080
Share Buy Back	-	(2,983)	-	-	-	(2,983)	-	(2,983)
Transfer to share premium for share options exercised	-	-	241	(241)	-	-	-	-
Currency translation differences arising in the period	-	-	-	(6,281)	-	(6,281)	1,295	(4,986)
Net Profit for the period	-	-	-	-	169,872	169,872	(2,725)	167,147
Dividend paid	-	-	-	-	(49,208)	(49,208)	-	(49,208)
As at 30 June 2009	999,690	(23,989)	319,380	(87,055)	727,347	1,935,373	4,794	1,940,167

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2009

(Unaudited)

	30.6.2009	30.6.2008
	RM	RM
	'000	'000
Net cash generated from operating activities	214,894	360,827
Net cash used in investing activities	(31,116)	(1,747,299)
Net cash (used in)/generated from financing activities	(223,884)	1,829,294
Net (decrease)/increase in cash and cash equivalents	(40,106)	442,822
Cash and cash equivalents at beginning of year	516,153	98,233
Cash and cash equivalents at end of year	<u>476,047</u>	<u>541,055</u>
Cash & bank balances	325,793	358,980
Deposits with financial institutions	527	19,410
Deposits with licensed banks	<u>151,141</u>	<u>167,332</u>
	477,461	545,722
Bank overdraft	<u>(1,414)</u>	<u>(4,667)</u>
	<u>476,047</u>	<u>541,055</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 – 30 June 2009

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 2008. 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 2008.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2008.

At the date of authorisation of these interim financial statements, the following FRSs and interpretations were issued but not yet effective and have not been applied by the Group:

FRSs and Interpretations		Effective for financial periods beginning on or after
FRS 4	Insurance Contract	1 January 2010
FRS 7	Financial Instruments: Disclosures	1 January 2010
FRS 8	Operating Segments	1 July 2009
FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10	Interim Financial Reporting and Impairment	1 January 2010

The adoption of the above FRSs and Interpretations upon their effective dates are not expected to have any significant impact on the interim financial statements of the Group. The Group is exempted from disclosing the possible impact, if any, to the financial statements upon its initial application of FRS 139.

A3. Qualification of annual financial statements

There were no audit qualifications on the annual financial statements of the Group for the year ended 31 December 2008.

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 period 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 period to date other than those stated below:

	RM'000
Opening Balance of ICP/IMTN outstanding as at 1 January 2009	300,000
ICP/IMTN drawdown	-
Balance of ICP/IMTN outstanding as at 30 June 2009	<u>300,000</u>

As at 30 June 2009, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") is RM300.0 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 respectively 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). The Company's Employees' Share Option Scheme (ESOS) has expired on 24th August 2009 and a total of 45,930,400 were exercised during current year. After taking into account these new shares allotted, the issued and paid up shares of the Company increased to 4,004,370,375.

C. As at the date of this report, the Company has repurchased a total 48,579,500 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM0.56 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares and treated in accordance with the requirement of Section 67A of the Companies Act 1965.

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A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Business Segment:	Revenue	Operating Profit
	6 months ended 30.6.2009 RM'000	6 months ended 30.6.2009 RM'000
Process equipment	964,394	229,988
Others	316	73
	<hr/>	<hr/>
	964,710	230,061

Geographical segments:	Revenue	Operating Profit
	6 months ended 30.6.2009 RM'000	6 months ended 30.6.2009 RM'000
Asia & Oceania	321,586	130,362
Europe & America	643,124	99,699
Total	<hr/>	<hr/>
	964,710	230,061

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 period to date other than those disclosed in item no. B8.

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	16,445	66,315
Investment	-	-
	<u>16,445</u>	<u>66,315</u>

A15. Related party transactions

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

	RM '000
Inter Merger Sdn Bhd *	
- Office rental, related charges and administrative expense	889
<i>* a company in which, Mr. Lee Swee Eng and Madam Gan Siew Liat are directors</i>	
I.M.Bina Sdn Bhd **	
-General construction and civil works	4,796
Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	31
<i>** a company in which Inter Merger Sdn Bhd is the holding company</i>	
Tofield Realty Development Corporation ***	
- General and civil contractor and provider of staff accomodation	369
<i>*** a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors and shareholders</i>	
Nassir Hazza ****	
- General construction, civil and related mechanical and engineering work	1,072
<i>**** Nassir Hazza is an entity controlled by Mohammed Nassir Hazza Al Fehaid Al Subaei, a director of KNM Saudi Limited Co</i>	

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

B1. Review of performance

The Group achieved revenue for year to date of RM964.71 million, profit before tax and minority interest of RM190.25 million and EBITDA (Earning Before Interest, Tax, Depreciation and Amortisation) of RM286.21 million for the current period ended 30 June 2009. The performance is comparable to the first half of last year.

B2. Variation of results against preceding quarter

The Group's revenue of RM439.26 million and net profit before taxation and minority interest of RM65.30 million for the second quarter ended 30 June 2009 were lower by 16.40% and 47.74% to first quarter's revenue of RM525.45 million and net profit before taxation and minority interest of RM124.95 million respectively. The lower revenue recognised and profit for this quarter are due to global economic slowdown.

B3. Current year prospects

The Board is confident that the Group's results for the year 2009 will continue to be profitable.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months ended 30.6.2009 RM'000	3 months ended 30.6.2008 RM'000	6 months ended 30.6.2009 RM'000	6 months ended 30.6.2008 RM'000
Income Tax expense :-				
Current	21,234	5,224	76,898	9,413
Prior period	796	(8,073)	797	(8,073)
Deferred tax	(26,580)	16,067	(54,590)	19,196
	<u>(4,550)</u>	<u>13,218</u>	<u>23,105</u>	<u>20,536</u>

The Group's effective tax rate is lower than the statutory tax rate mainly due to the availability of certain tax incentives and changes in deferred tax liabilities/asset position.

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 period to date.

B7. Quoted and marketable investments

There were no investments or disposals in quoted and marketable securities during the current quarter and financial period to date.

B8. Status of corporate proposals announced but not completed

- (1) KNM had on 30 May 2006 entered into a Memorandum of Agreement (MOA) with Sofinter SpA (“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).

No Joint Venture Agreement have been finalized due to the restructuring of Sofinter.

- (2) The 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”).was duly approved by the Company’s shareholders and Securities Commission (SC) in April 2008 and May 2008 respectively and approval was further extended by SC to 29 November 2009.

- (3) On 29 July 2009, KNM’s wholly owned unit, KNMPS, has entered into a Memorandum of Agreement (MoA) with the Societe Des Hydrocarbures Du Tchad (“ The National Oil Corp of Chad”) to establish a 60:40 JV Company (JVCo); whereby: - (a) the JVCo will be granted a 5-year concession to develop, operate and maintain the Sedigi Oilfield Facilities in Chad; (b) KNM will undertake a 24-months EPCC contract with an estimated value of USD220m (about RM777m); and (c) The JVCo will also award the training, operations and maintenance of the facilities to KNMPS for the concession period. Both parties agreed to execute the JV operating agreement by 31 August 2009 subject to further feasibility studies and detailed proposal to be undertaken by KNMPS.

(4) On 31 July 2009:-

- (i) KNM's wholly owned group subsidiary, Borsig ZM Compression GmbH ("BZMC"), had completed its entire 100% acquisition of a dormant company known as Compart Compressor Technology GmbH ("CCT") from Cormoran AG and Leguan GmbH for a cash consideration of EUR25,000 (equivalent to RM124,232.50 based on exchange rate of EUR1.00 to RM4.9693)(hereinafter referred to as "Acquisition No.1"); and
- (ii) That pursuant to the above Acquisition No. 1, CCT had executed a Sale and Purchase Agreement ("SPA") with Compart Technology GmbH & Co. KG ("Compart") and Mr Peter Rausch, whereby Compart has inter alia, agreed to dispose of its core business in the development, production and distribution of valves, compressor parts and monitoring systems for compressors and the provision of maintenance and repair works of compressors together with all assets thereto ("the Business") to CCT for a cash consideration of EUR1,124,000 (equivalent to Rm5,585,493.20 based on exchange rate of EUR1.00 to Rm4.9693) (hereinafter referred to as "Acquisition No.2").

The above Acquisition No.2 is expected to be completed on/by 30 June 2014, being the final payment due and payable to Compart.

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)	122,863
Borrowings (unsecured)	123,314
ICP/IMTN	150,000
Bank Overdraft	1,414
Bill Payable	120,700
Hire Purchase	1,329
	<u>519,620</u>
 Long term :	
Borrowings (secured)	516,867
Borrowings (unsecured)	87,398
IMTN	150,000
Hire Purchase	11,361
	<u>765,626</u>
	<u>1,285,246</u>

The above are also inclusive of other borrowings in foreign currency of RMB43.25 million, EURO39.17 million ,CND15.40 million and BRL7.21 million.

The Exchange rates used are 1 RMB = RM 0.5187, 1 EURO = RM4.9733, 1CND=RM3.0640 and 1BRL=RM1.8248

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 :-

Currency	Contracted Amount '000	Equivalent Amount in RM'000
USD	76,350	259,475
EURO	41,431	204,785
SGD	856	2,022
AUD	186	467
JPY	42,320	1,574
RM	478	475
CAD	2,511	7,886
		<hr/> <hr/> 476,684

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 June 2009	30 June 2008	30 June 2009	30 June 2008
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	71,420	96,291	169,872	150,415
Number of shares at the beginning of the period ('000)	3,921,805	1,046,583	3,921,805	1,046,583
Effect of ESOS ('000)	16,124	4,296	16,124	4,296
Effect of Right Issue		10,200		10,200
Effect of Bonus issue ('000)	-	2,637,394	-	2,637,394
Effect of Share Buy Back	(5,501)		(5,501)	
Weighted average number of shares ('000)	3,932,428	3,698,473	3,932,428	3,698,473
Basic earnings per share (sen)	1.82	2.60	4.32	4.07

	Individual Quarter		Cumulative Quarter	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	71,420	96,291	169,872	150,415
Weighted average number of shares as per above ('000)	3,932,428	3,698,473	3,932,428	3,698,473
Number of shares under ESOS ('000)	5,925	16,520	5,925	16,520
Number of shares would have been issued at fair value('000)	(2,533)	(1,924)	(2,533)	(1,924)
Weighted average number of shares - diluted ('000)	3,935,820	3,713,069	3,935,820	3,713,069
Fully diluted earnings per share (sen)	1.81	2.59	4.32	4.05

The comparative basic and diluted earnings per share have been restated to take into account the effects of bonus issue.

B14. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 27 August 2009.