

Financial Results

Reference No **KG-060823-63362**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
Date Announced : **23/08/2006**
Quarterly report for the financial period ended : **30/06/2006**
Quarter : **2**
Financial Year End : **31/12/2006**
The figures : **have not been audited**

Converted attachment :

Please attach the full Quarterly Report here:



InterimFinancialReport2Q2006.xls KLSE Announcement(2Q 2006).doc

Remark:

SUMMARY OF KEY FINANCIAL INFORMATION 30/06/2006

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	30/06/2006 RM'000	30/06/2005 RM'000	30/06/2006 RM'000	23/06/2005 RM'000
1 Revenue	234,893	69,981	409,233	141,374
2 Profit/(loss) before tax	64,902	12,701	93,376	25,112
3 Profit/(loss) after tax and minority interest	59,417	9,923	79,224	18,808
4 Net profit/(loss) for the period	58,815	9,923	79,592	18,808
5 Basic earnings/(loss) per share (sen)	39.42	6.74	52.56	12.77

6	Dividend per share (sen)	0.00	0.00	0.00	0.00
				AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
7	Net assets per share attributable to ordinary equity holders of the parent (RM)			1.5800	1.0500

Note: For full text of the above announcement, please access Bursa Malaysia website at www.bursamalaysia.com

Remarks :

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2006 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 30.6.2006 RM'000	3 months ended 30.6.2005 RM'000 (restated)	30.6.2006 RM'000	30.6.2005 RM'000 (restated)
Contract revenue		234,893	69,981	409,233	141,374
Operating profit		36,120	11,876	64,540	23,783
Financing costs		(4,295)	(1,099)	(5,319)	(2,491)
Interest income		156	253	238	427
Negative goodwill		33,738	-	33,917	623
Share of profit of jointly controlled entity	A5	(817)	1,671	-	2,770
Profit before tax		64,902	12,701	93,376	25,112
Tax expense		(6,087)	(2,778)	(13,784)	(6,304)
Net profit for the period		58,815	9,923	79,592	18,808
Attributable to:					
Equity holders of the parent		59,417	9,923	79,224	18,808
Minority interest		(602)	-	368	-
		58,815	9,923	79,592	18,808
Earnings per share:					
- Basic (sen)		39.42	6.74	52.56	12.77
- Diluted (sen)		37.74	6.59	50.32	12.49

The notes set out on pages 5 to 16 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)

2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	NOTE	As at 30.6.2006 RM'000	As at 31.12.2005 (restated) RM'000
Assets			
Non-current assets			
Property, plant and equipment		408,167	139,345
Investment in jointly controlled entities		-	61,897
Other investment		2,321	-
		<u>410,488</u>	<u>201,242</u>
Current assets			
Inventories		22,028	4,771
Trade and other receivables		444,175	134,865
Cash and cash equivalents		64,167	17,511
		<u>530,370</u>	<u>157,147</u>
TOTAL ASSETS		<u>940,858</u>	<u>358,389</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		76,127	74,806
Reserves		164,394	82,613
		<u>240,521</u>	<u>157,419</u>
Minority interest		<u>12,341</u>	<u>-</u>
Total Equity		<u>252,862</u>	<u>157,419</u>
Non-current liabilities			
Retirement benefit obligations		3,300	-
Borrowings	B9	61,749	15,162
Deferred taxation		10,130	10,130
		<u>75,179</u>	<u>25,292</u>
Current liabilities			
Trade and other payables		388,472	72,218
Borrowings	B9	177,833	94,242
Provision for taxation		40,989	9,218
Proposed Dividend		5,523	-
		<u>612,817</u>	<u>175,678</u>
Total liabilities		<u>687,996</u>	<u>200,970</u>
TOTAL EQUITY AND LIABILITIES		<u>940,858</u>	<u>358,389</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.58</u>	<u>1.05</u>

The notes set out on pages 5 to 16 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2006 (Unaudited)

	No. of Shares RM'000	Share Capital RM'000	Attributable to equity holders of the parent			Total RM'000	Minority Interest RM'000	Total equity RM'000
			Share Premium RM'000	Revaluation and Other Reserve RM'000	Distributable Reserve (Accumulated Loss) / Retained Profit RM'000			
As at 1 January 2005	145,912	72,956	804	6,735	33,882	114,377	-	114,377
Issue of shares pursuant to: - Esos	3,700	1,850	4,181	-	-	6,031	-	6,031
Currency translation differences arising in the period	-	-	-	374	-	374	-	374
Expenses not recognised in income statement - Listing expenses	-	-	(1,347)	-	-	(1,347)	-	(1,347)
Net Profit for the year	-	-	-	-	41,172	41,172	-	41,172
Proposed Dividend	-	-	-	-	(3,188)	(3,188)	-	(3,188)
As at 31 December 2005	149,612	74,806	3,638	7,109	71,866	157,419	-	157,419
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	12,561	12,561
Issue of shares pursuant to: - Esos	2,641	1,321	5,265	-	-	6,586	-	6,586
Currency translation differences arising in the period	-	-	-	2,815	-	2,815	(588)	2,227
Net Profit for the period	-	-	-	-	79,224	79,224	368	79,592
Proposed Dividend	-	-	-	-	(5,523)	(5,523)	-	(5,523)
As at 30 June 2006	152,253	76,127	8,903	9,924	145,567	240,521	12,341	252,862

The notes set out on pages 5 to 16 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 2006

(Unaudited)

	30.6.2006	30.6.2005
	RM	RM
	'000	'000
Net cash (used in)/generated from operating activities	(12,251)	51,687
Net cash used in investing activities	(22,281)	(22,089)
Net cash generated from /(used in) financing activities	75,817	(21,249)
Net increase in cash and cash equivalents	<u>41,285</u>	<u>8,349</u>
Cash and cash equivalents at beginning of year	15,649	25,169
Cash and cash equivalents at end of year	<u><u>56,934</u></u>	<u><u>33,518</u></u>

The notes set out on pages 5 to 16 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 2006

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 2005. 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 2005.

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 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investment in Associates
FRS 131	Investment in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

Revised FRSs which would be adopted from the financial period beginning 1 January 2007 are:

FRS 117	Leases
FRS 124	Related Party Disclosures

The adoption of FRS 2,3,5,108,110,116,121,127,128,131,132,133,136 and 138 does not have significant impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the new/revised FRSs are discussed below:

FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the net profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirement of FRS 101, with the comparatives restated to conform with the current period's presentation.

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 2005.

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 except as disclosed in A2.

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

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 2006	72,000
MUNIF drawdown	62,000
Balance of MUNIF outstanding as at 30 June 2006	<u>134,000</u>

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As at 30 June 2006, the amount outstanding for Murabahah Underwritten Note Issuance Facility (“MUNIF”) /Islamic Medium Term Notes (“IMTN”) was RM134.0 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, 3,582,200 shares were exercised and 924,400 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 168,831,800 and total number of unexercised share options as at date of report was 9,906,400.

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
	6 months ended	6 months ended
	30.6.2006	30.6.2006
	RM’000	RM’000
Process equipment	409,058	64,426
Others	175	114
	<hr/>	<hr/>
	409,233	64,540

A10. 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.

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

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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.

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	15,417	77,513
Investment	-	58,000
	<u>15,417</u>	<u>135,513</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	890

**a company in which,
Mr.Lee Swee Eng and Gan Siew Liat are directors*

I.M.Bina Sdn Bhd,**	
-General construction and civil works	4,662
-Manpower supply payable	554

Inter Merger Trading Sdn Bhd,**	
-Supply of production materials and fixed assets	106

***a company in which Inter Merger Sdn Bhd is a holding company*

Hamilton Drive Properties Pty Limited,***	
-Rental of land for manufacturing facility	297

****a company in which MrJohn Kenneth Rundell is a director*

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

B1. Review of performance

The Group achieved a revenue of RM409.23 million and profit before tax and minority interest of RM93.38 million for the current period ended 30 June 2006. 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 RM234.89 million and net profit before taxation and minority interest of RM64.90 million for the second quarter ended 30 June 2006 were higher by 34.73% and 127.96% compared to first quarter's revenue of RM174.34 million and net profit before taxation and minority interest of RM28.47 million respectively. The increase in net profit before tax was mainly due to higher revenue recognized for the period.

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

	6 months ended 30.6.2006 RM'000	6 months ended 30.6.2005 RM'000
Income Tax expense :-		
Current	13,784	6,304
Prior period	-	-
	<u>13,784</u>	<u>6,304</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

- (1) On 25 April 2006, the Company proposed a private placement of up to 15,806,418 new ordinary shares of RM0.50 each (**Placement Shares**), which represents a total of up to 10% of the issued and paid-up share capital of the Company at an issue price to be fixed at a later date, at a discount not exceeding 5% to the 5-day weighted average market price.

The proceeds to be raised from the proposed private placement is proposed to be utilized to finance the working capital requirement to the KNM Group and pay expenses relating to the proposed private placement.

The proposed private placement is conditional upon the approvals being obtained from the following:

- (i) the Securities Commission Equity Compliance Unit
- (ii) the Ministry of International Trade and Finance (MITI) (for which the Company's subsidiaries are licenced by MITI)
- (iii) Bursa Malaysia Securities Berhad for the listing of and quotation for the Placement Shares to be issued pursuant to the proposed private placement.

The Placement Shares shall upon allotment and issue, rank pari passu with the existing shares in the Company.

The Placement Shares were placed to reputable foreign institutional investors at RM6.00 per share, with gross proceeds of RM92,052,600 from 15,342,100 ordinary shares. The private placement exercise was completed on 21 July 2006.

- (2) On 20 March 2006, the Company proposed a bonus issue of up to 77,783,280 new ordinary shares of RM0.50 each (Bonus Shares) on the basis of one (1) new ordinary shares of RM0.50 each for every two (2) existing ordinary shares held on an entitlement date to be determined later. The proposed bonus issue will be effected by capitalization of the share premium and the retained profits of the Company. These new shares when issued, will rank pari passu in all aspect with the existing shares in issued.

The number of Bonus Shares will be adjusted in the event the proposed private placement is completed before the proposal bonus issue.

The proposed bonus issue is subject to and conditional upon approvals being obtained from the followings:-

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- (i) Bursa Securities, for the listing of and quotation for new KNM Shares to be issued pursuant to the Proposed Bonus Issue;
- (ii) Shareholders of KNM for the Proposed Bonus Issue at an extraordinary general meeting to be convened; and
- (iii) any other relevant authorities.

The approval of the shareholders of KNM for the proposed bonus issue was obtained on 28 June 2006. The proposed bonus issue is pending the approval-in-principle of Bursa Securities for the listing of and quotation for new KNM ordinary shares to be issued pursuant to the proposed bonus issue

- (3) KNM has on 30 May 2006 entered into a Memorandum of Agreement (“MOA”) with Sofinter setting 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”).

- (a) MJVCO

- (1) The parties estimate that a paid up and issued share capital of USD1 million (equivalent to RM3.65 million based on an exchange rate of RM3.65:USD1.00) will be required (on the assumption all shop/offices required for the Boiler Business will be rented or leased).
- (2) 51% equity interest of MJVCO will be directly held by a company controlled by KNM and 49% equity interest of MJVCO will be directly held by a company controlled by Sofinter.
- (3) MJVCO is entitled to use and will be granted exclusive rights to use “Macchi” technology in Malaysia, Singapore, Indonesia and Brunei (“Asean 4”) and Australia (“MJVCO Territories”) owned by Sofinter based on a manufacturing license agreement on terms satisfactory to KNM and Sofinter.
- (4) MJVCO shall also be allowed to quote and take orders on a non-exclusive basis for jobs from Thailand, Vietnam, Myanmar, Laos, Cambodia and Philippines (“Asean 6”).
- (5) In the event that MJVCO is awarded substantial orders from Asean 6, the MJVCO Territories will be extended by Sofinter to cover such countries.
- (6) The Boiler Business products shall include:-
 - (i) Industrial package boilers, eg “Macchi” “Titan M” boiler model;
 - (ii) Utility boiler for industrial use, eg “Macchi” “MVF” and “MRD” boiler model;
 - (iii) Waste heat boilers, other than those using the technology of FBM Hudson Italiana SpA (“FBM”)
 - (iv) Heat recovery steam generators; and
 - (v) Marine propulsion boilers
- (7) The board of directors of MJVCO will consist of two directors nominated by KNM and one director nominated by Sofinter.
- (8) Sofinter will support MJVCO in technology (with the manufacturing license agreement) and in management.
- (9) KNM will support MJVCO in managing and manufacturing work as well as support with local business environment, permits, licenses, legal affairs, bureaucracy, recruitment of human resources, etc.
- (10) MJVCO will be entitled to use “Macchi” trademark owned by Sofinter in accordance with the manufacturing license agreement.

- (b) CJVCO

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- (1) The parties estimate that a paid up and issued share capital of between USD1.0 to USD1.5 million (equivalent to between RM3.65 million to RM5.48 million based on an exchange rate of RM3.65:USD1.00) will be required (on the assumption all shop/offices required for the Boiler Business will be rented or leased) or between USD3.0 to USD3.5 million (equivalent to between RM10.95 million to RM12.78 million based on an exchange rate of RM3.65:USD1.00) will be required (on the assumption all shop/offices required for the Boiler Business will be purchased and the land rights will be granted to the CJVCO).
- (2) 51% equity interest of CJVCO will be held by a company controlled by Sofinter and 49% equity interest of CJVCO will be held by a company controlled by KNM.
- (3) CJVCO is entitled to use and will be granted exclusive rights to use “Macchi” technology owned by Sofinter in China (“CJVCO Territory”) based on a manufacturing license agreement on terms satisfactory to KNM and Sofinter.
- (4) The Boiler Business products shall include:
 - (i) Industrial package boilers, e.g. “Macchi” “Titan M” boiler model;
 - (ii) Utility boilers for industrial use, eg “Macchi” “MVF” and “MRD” boiler model;
 - (iii) Waste heat boilers, other than those using FBM’s technology;
 - (iv) Heat recovery steam generators; and
 - (v) Marine propulsion boilers
- (5) The board of directors of CJVCO will consist of one director nominated by KNM and two directors nominated by Sofinter.
- (6) Sofinter will support CJVCO in technology (with the manufacturing licence agreement) and in management.
- (7) KNM will support CJVCO in managing and manufacturing work as well as support with local business environment, permits, licenses, legal affairs, bureaucracy, recruitment of human resources, etc.
- (8) CJVCO will be entitled to use “Macchi” trademark owned by Sofinter in accordance with the manufacturing licence agreement.

The Joint Venture Agreement for Proposed Joint Venture is being finalized.

- (4) KNM propose to acquire 90% equity interest in Virgo Pulse Sdn Bhd (“VPSB”) comprising 9,000 ordinary shares of RM1.00 each (“Sale Shares”) from the Vendors for a cash consideration of RM27,500,000. The Proposed Acquisition is subject to:-
 - (a) the completion of due diligence to be carried out by KNM and its advisers, with results satisfactory to KNM at its sole discretion; and
 - (b) the signing of a definitive shares sale agreement for the Proposed Acquisition (“SSA”) by KNM and the Vendors within thirty (30) days from the date of the MOA (or such extension of time to be agreed by both parties).

The purchase consideration of RM27,500,000 was arrived at on a willing-buyer willing-seller basis after taking into consideration the following:-

- (i) the potential future earnings of the VPSB Group;
- (ii) the historical performance of the VPSB Group; and

The purchase consideration of RM27,500,000 is expected to be funded through a combination of internally generated funds and borrowings.

The Proposed Acquisition is not expected to give rise to any additional financial commitment to put the VPSB Group on-stream. The detailed terms and conditions of the Proposed Acquisition will be finalized and announced upon the execution of the SSA.

The salient term of the MOA, include the following:-

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(Company No: 521348-H)

- (a) KNM shall acquire 9,000 Sale Shares free from all liens, pledges, charges and other encumbrances whatsoever and with all rights now or hereafter attaching thereto or accruing thereon from the date of completion of the Proposed Acquisition including without limitation, all bonuses, rights, dividends and other distributions declared, paid or made thereof.
- (b) The cash consideration for the Proposed Acquisition of RM27,500,000 shall be paid in the following manner:-
 - (i) RM4,050,000 shall be paid on the signing of the SSA (subject to delivery of all relevant completion documents to KNM); and
 - (ii) The balance consideration of RM23,450,000 shall be paid within thirty (30) days from the unconditional date of SSA.
- (c) The SSA to be executed shall contain the following conditions precedent:-
 - (i) The approval from the shareholders of KNM (if required); and
 - (ii) The approvals of any relevant government authorities in Malaysia (if required).
- (d) KNM and its advisers shall be granted free access to information with regards to the VPSB Group to undertake financial, legal and operational due diligence on VPSB and its officers and the Vendors shall assist KNM and /or its advisers in respect of the due diligence to be undertaken. The due diligence shall be completed within twenty-one (21) days from the date of the MOA (or such other period as agreed upon by the parties).
- (e) The Vendors shall be entitled have one (1) board representation in VPSB or any of its subsidiaries provided the Vendors is still holding the remaining 10% equity interest in VPSB.

The Proposed Acquisition will allow the KNM group of companies (“KNM Group”) to expand into new industrial sectors such as power, palm oil and biomass. The combination of the respective technical and managerial expertise of the KNM Group and the VPSB Group enables the KNM Group to have a wider range of products, including industrial boilers and energy systems in industry sectors other than oil, gas, petrochemicals and minerals processing. The Proposed Acquisition will also facilitate a strategic partnership between KNM and the Vendors to further develop and expand the VPSB Group’s core business of manufacturing industrial boilers using its own “Vickers Hoskins” brand name.

The Proposed Acquisition is subject to and conditional upon the approvals from the following:-

- (i) the Foreign Investment Committee and /or Ministry of International Trade and Industry;
- (ii) the shareholders of KNM; and
- (iii) other relevant authorities (if necessary)

The Proposed Acquisition is currently subject to financial and legal due diligence by KNM’s appointed advisers.

- (5) 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	(8,029)	161
Listing expenses	1,500	(1,864)	(364)
Working capital	298	(298)	-
Total	21,065	(21,065)	-

B9. Group borrowings and debt securities

KNM GROUP BERHAD
(Company No: 521348-H)

The Group's borrowings as at the end of the reporting period were as follows:

	RM '000
Short term:	
Borrowings (secured)	36,472
MUNIF	134,000
Bank Overdraft	7,233
Bill Payable	-
Hire purchase liabilities	128
	<u>177,833</u>
Long term :	
Borrowings (secured)	60,776
Hire purchases liabilities	973
	<u>61,749</u>

The above inclusive of borrowing in foreign currency of RMB27.18 million, EURO13.71 million, AED12.17 million and AUD3.08 million.

The Exchange rates used are 1 RMB = RM 0.4611, 1 EURO = RM4.6959, 1 AED = RM0.9926 and 1 AUD = RM2.6889

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	73,418	258,977
GBP	3	20
EURO	4,762	20,140
SGD	438	919
AUD	6,675	18,176
JPY	392,118	10,988
		<u>309,220</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.

The proposed first and final dividend of 5 sen or 10% per ordinary share of RM0.50 each less income tax of 28% in respect of the previous financial year ended 31 December 2005 was approved by Company's shareholders at the fourth Annual General Meeting dated 28 June 2006.

The entitlement to dividend is determined based on the record of depositors on 7 July 2006 and the dividend was paid on 8 August 2006.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	30 June 2006	30 June 2005	30 June 2006	30 June 2005
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	59,417	9,923	79,224	18,808
Number of shares at the beginning of the period ('000)	149,612	145,912	149,612	145,912
Effect of ESOS ('000)	1,123	1,391	1,123	1,391
Weighted average number of shares ('000)	150,735	147,303	150,735	147,303
Basic earnings per share (sen)	39.42	6.74	52.56	12.77

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	Individual Quarter		Cumulative Quarter	
	30 June 2006	30 June 2005	30 June 2006	30 June 2005
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	59,417	9,923	79,233	18,808
Weighted average number of shares as per above ('000)	150,735	147,303	150,735	147,303
Number of shares under ESOS ('000)	9,919	12,741	9,919	12,741
Number of shares would have been issued at fair value('000)	(3,198)	(9,483)	(3,198)	(9,483)
	<hr/>			
Weighted average number of shares - diluted ('000)	157,456	150,561	157,456	150,561
Fully diluted earnings per share (sen)	37.74	6.59	50.32	12.49

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 August 2006.