

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 MARCH 2006 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 31.3.2006 RM'000	3 months ended 31.3.2005 RM'000 (restated)	31.3.2006 RM'000	31.3.2005 RM'000 (restated)
Contract revenue		174,340	71,393	174,340	71,393
Operating profit		28,420	11,906	28,420	11,906
Financing costs		(1,024)	(1,392)	(1,024)	(1,392)
Interest income		81	174	81	174
Negative goodwill		179	623	179	623
Share of profit of jointly controlled entity	A5	817	1,098	817	1,098
Profit before tax		28,473	12,409	28,473	12,409
Tax expense		(7,697)	(3,526)	(7,697)	(3,526)
Net profit for the period		20,776	8,883	20,776	8,883
Attributable to:					
Equity holders of the parent		19,806	8,883	19,806	8,883
Minority interest		970	-	970	-
		20,776	8,883	20,776	8,883
Earnings per share:					
- Basic (sen)		13.21	6.04	13.21	6.04
- Diluted (sen)		12.66	5.91	12.66	5.91

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 31.3.2006	As at 31.12.2005 (restated)
		RM'000	RM'000
Assets			
Non-current assets			
Property, plant and equipment		158,727	139,345
Investment in jointly controlled entities		62,713	61,897
		<u>221,440</u>	<u>201,242</u>
Current assets			
Inventories		7,103	4,771
Trade and other receivables		270,727	134,865
Cash and cash equivalents		65,738	17,511
		<u>343,568</u>	<u>157,147</u>
TOTAL ASSETS		<u>565,008</u>	<u>358,389</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		75,165	74,806
Reserves		102,543	82,613
		<u>177,708</u>	<u>157,419</u>
Minority interest		12,399	-
Total Equity		<u>190,107</u>	<u>157,419</u>
Non-current liabilities			
Retirement benefit obligations		1,974	-
Borrowings	B9	31,993	15,162
Deferred taxation		10,130	10,130
		<u>44,097</u>	<u>25,292</u>
Current liabilities			
Trade and other payables		181,400	72,218
Borrowings	B9	132,778	94,242
Provision for taxation		16,626	9,218
		<u>330,804</u>	<u>175,678</u>
Total liabilities		<u>374,901</u>	<u>200,970</u>
TOTAL EQUITY AND LIABILITIES		<u>565,008</u>	<u>358,389</u>
Net assets per share (RM)		<u>1.18</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

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 MARCH 2006 (Unaudited)

	No. of Shares RM'000	Share Capital RM'000	Attributable to equity holders of the parent		Distributable Reserve (Accumulated Loss) / Retained Profit RM'000	Total RM'000	Minority Interest RM'000	Total equity RM'000
			Share Premium RM'000	Revaluation and Other Reserve 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	-	-	-	-	-	-	11,429	11,429
Issue of shares pursuant to: - Esos	717	359	1,277	-	-	1,636	-	1,636
Currency translation differences arising in the period	-	-	-	(1,153)	-	(1,153)	-	(1,153)
Net Profit for the year	-	-	-	-	19,806	19,806	970	20,776
As at 31 March 2006	150,329	75,165	4,915	5,956	91,672	177,708	12,399	190,107

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****31 MARCH 2006****(Unaudited)**

	31.3.2006 RM '000	31.3.2005 RM '000
Cash flows from operating activities		
Profit before tax	28,473	12,409
Adjustments for:		
Negative goodwill	(179)	(623)
Depreciation	529	1,735
Interest expense	987	1,527
Interest income	(466)	(178)
Share of profit in jointly control entity	(817)	(1,098)
Currency translation difference	(1,870)	-
Operating profit before working capital changes	<u>26,657</u>	<u>13,772</u>
(Increase)/Decrease in working capital:		
Inventories	232	1,019
Trade and other receivables	(45,397)	28,943
Trade and other payables	24,218	(3,872)
Cash used in operations		
Income taxes paid	(223)	(743)
Interest paid	(40)	(1,527)
Interest received	466	178
Net cash generated from/(used in) operating activities	<u>5,913</u>	<u>37,770</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,850)	(3,594)
Acquisition of subsidiary net of cash acquired (Note A)	(5,426)	(6,120)
Proceeds from disposal of property, plant and equipment	17	-
Net cash used in investing activities	<u>(12,259)</u>	<u>(9,714)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	1,635	1,157
Net (repayment)/proceeds from bill payable	(5,334)	(2,056)
Repayment of hire purchase liabilities:		
Net proceeds from term loan	15,344	17,108
Net proceeds/(repayment) to MUNIF	42,000	(6,000)
Interest expenses:		
Interest expenses	(968)	-
Net cash generated from financing activities	<u>52,441</u>	<u>10,180</u>
Net (decrease)/increase in cash and cash equivalents	46,095	38,236
Cash and cash equivalents at beginning of year	15,649	25,169
Cash and cash equivalents at end of year	<u>61,744</u>	<u>63,405</u>
Cash & bank balances	40,338	62,542
Deposits in the licensed bank	<u>25,400</u>	<u>1,350</u>
	65,738	63,892
Bank overdraft	<u>(3,994)</u>	<u>(487)</u>
	<u>61,744</u>	<u>63,405</u>

Note A

Acquisition 51% (plus 1 share) of KNM Pty Ltd Group (inclusive of W.E. Smith Hudson Pty Ltd, PT Heat Exchanger Indonesia and Hudson Hei (Australia) Pty Ltd)

During the period, the Group acquired 51% (plus 1 share) of KNM Pty Ltd Group of companies

	RM '000
Property, plant & equipment	14,927
Inventories	2,565
Receivables	88,992
Payables and accruals	(85,047)
Borrowings	(1,449)
Retirement benefit obligation	(2,236)
Cash and Bank	9,975
Bank Overdraft	(2,938)
Total Net Assets	<u>24,789</u>
Less: Minority Interest	(12,147)
Negative Goodwill on acquisition	(179)
Purchase consideration satisfied by cash	<u>12,463</u>
Add : cash of the subsidiary companies acquired	<u>7,037</u>
Cash flow on acquisition net of cash acquired.	<u>5,426</u>

Notes to the quarterly Interim Financial Report – 31 March 2006

PART A: EXPLANATORY NOTES AS PER MASB 26

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

New/revised FRSs which would be adopted from the financial period beginning 1 January 2007 are:

FRS 117	Leases
FRS 124	Related Party Disclosures
FRS 139	Financial Instruments:Recognition and Measurement

The adoption of FRS 2,3,5,108,110,116,121,128,131,132,133,136 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 Note 2.

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	42,000
Balance of MUNIF outstanding as at 31 March 2006	<u>114,000</u>

KNM GROUP BERHAD
(Company No: 521348-H)

As at 31 March 2006, the amount outstanding for Murabahah Underwritten Note Issuance Facility (“MUNIF”) /Islamic Medium Term Notes (“IMTN”) was RM114.0 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, 1,913,900 shares were exercised and 198,250 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 151,821,300 and total number of unexercised share options as at date of report was 12,300,850.

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
	3 months ended	3 months ended
	31.3.2006	31.3.2006
	RM’000	RM’000
Process equipment	174,165	28,306
Others	175	114
	<hr/>	<hr/>
	174,340	28,420

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.

A11. Changes in the composition of the Group

KNM GROUP BERHAD
(Company No: 521348-H)

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	691	37,868
Investment	-	30,000
	<u>691</u>	<u>67,868</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	308

**a company in which Dato' Abdul Rani Bin Mohd Razalli, Mr.Lee Swee Eng and Gan Siew Liat are directors*

I.M.Bina Sdn Bhd,**	
-General construction and civil works	4,644
-Manpower supply receivable	(43)

Inter Merger Trading Sdn Bhd,**	
-Supply of production materials and fixed assets	81

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

Hamilton Drive Properties Pty Limited,***	
-Rental of land for manufacturing facility	115

****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 RM174.34 million and profit before tax and minority interest of RM28.47 million for the current period ended 31 March 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 174.34 million and net profit before taxation and minority interest of RM28.47 million for the first quarter ended 31 March 2006 were higher by 78.61% and 91.85% compared to fourth quarter's revenue of RM97.61 million and net profit before taxation of RM14.84 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

	3 months ended 31.3.2006 RM'000	3 months ended 31.3.2005 RM'000
Income Tax expense :-		
Current	7,697	3,526
Prior period	-	-
	<u>7,697</u>	<u>3,526</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) 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

Subsequently, KNM Process Systems Sdn Bhd ("KNMPS"), a wholly-owned subsidiary of KNM and the management of FBM ("Management"), represented by Riccardo Manisco entered into a memorandum of agreement ("MOA") on 15 February 2006 to principally agree on, *inter-alia* the following -

- (i) the Management intends to incorporate a company under the laws of Netherlands ("Newco") which will have an issued and paid-up share capital of Euro18,000 comprising 18,000 ordinary shares of Euro1.00 each in Newco ("Newco Shares");
- (ii) the Management will thereafter subscribe for 162,000 Newco Shares that will represent 90% of the enlarged share capital of Newco and will then enter into an agreement with KNMPS to sell 100% of the enlarged share capital of Newco ("Sale Shares") to KNMPS ("Newco SSA"); and
- (iii) upon completion of the above, the proposed acquisition of the entire equity interest in FBM by KNMI as envisaged under the SSA will be undertaken by KNMPS through Newco to be effected by the novation of the SSA by KNMI to Newco.

Arising from the above -

KNM GROUP BERHAD
(Company No: 521348-H)

- (i) KNMPS and Riccardo Manisco representing the Management had on 4 April 2006 entered into the Newco SSA; and
- (b) FBM Hudson Italiana BV, a company incorporated under the laws of Netherlands on 23 March 2006 and registered in the trade register of the Chamber of Commerce and Industries for Amsterdam on 29 March 2006 has been identified as Newco.

The salient terms of the Newco SSA include the following:-

- (i) The Newco SSA is conditional upon the following conditions precedent being fulfilled within six (6) months from the date of the Newco SSA, or such later date as the parties may agree ("Cut-off Date"):-
 - (a) by the Management:-
 - (1) The incorporation of Newco with an issued share capital of Euro18,000 Newco Shares to be issued and be fully paid-up; and
 - (2) The subscription by the Management for 162,000 Newco Shares that will represent 90% of the enlarged share capital of Newco;
 - (b) by KNMPS:-
 - (1) The approval of the Board to the purchase of the Sale Shares and transactions contemplated under the Newco SSA by 31 March 2006;
 - (2) The approval of the shareholders of KNM by way of ordinary resolution to purchase the Sale Shares and transactions contemplated under the Newco SSA;
 - (3) The approval of Bank Negara Malaysia to the purchase of the Sale Shares and transactions contemplated under the Newco SSA by 31 March 2006; and
 - (4) The approval of any other relevant authorities or persons deemed necessary by KNM;
 - (c) by Newco:-
 - (1) The approval of the board of directors and shareholders of Newco for the sale of the Sale Shares in favour of KNMPS and the registration of KNMPS as the registered shareholder of the Sale Shares in accordance with the Memorandum and Articles of Association of Newco;
 - (d) The execution (where applicable) and completion of the following documents simultaneously with the Newco SSA:-
 - (1) The SSA;
 - (2) The letter(s) of novation to be given by KNMI to Hamon and the lenders of FBM ("FBM Lenders") and duly confirmed by Hamon, the FBM Lenders and Newco in respect of the novation by KNMI of:-
 - the SSA; and
 - the debt settlement letters to be executed between KNMI and the FBM Lenders in respect of the purchase of the FBM Lenders' debt which forms part of the Proposed FBM Acquisition by Newco

(Collectively the "Transaction Documents").

KNM GROUP BERHAD
(Company No: 521348-H)

The date on which the above conditions precedent are fulfilled shall be referred to as the Unconditional Date.

- (ii) The Management irrevocably and unconditionally agree and undertake to:-
 - (a) subscribe for 18,000 Newco Shares at Euro1.00 per share; and
 - (b) subscribe for 162,000 Newco Shares for a total subscription price of Euro6,750,000 or approximately Euro41.67 per Newco Share which consist of par value of Euro1.00 and premium of Euro40.67. The 162,000 Newco Shares subscribed for will be partially paid up to 25% of the par value of 162,000 Newco Shares of approximately Euro40,500.
- (iii) Riccardo Manisco, representing the Management will then sell 100% of the enlarged share capital of Newco comprising 180,000 Newco Shares, of which 18,000 Newco Shares are fully paid-up and 162,000 Newco Shares are partially paid-up to KNMPS; and
- (iv) KNMPS shall pay the total sale price for the Sale Shares, being a sum equivalent to Euro58,500, to Riccardo Manisco, representing the Management on the day falling within seven (7) days after the Unconditional Date ("Completion Date"). On Completion Date, KNMPS shall also pay the remaining balance of the subscription monies for the partially paid-up Sale Shares, which will be utilised by Newco for paying the amount due under the Transaction Documents exclusively to Hamon and the FBM Lenders on the Completion Date as consideration for the Proposed FBM Acquisition.

On 11 April 2006, the following agreements were entered into to effect the FBM Debt Purchase:-

- (a) Debt settlement agreement between KNMI, Bear Stearns Bank Plc ("BSB") and FBM wherein KNMI agreed to purchase the face value debt booked on 11 April 2006 ("Closing Date") owing by FBM to BSB amounting to Euro Dollar ("Euro")889,303.46 for a cash consideration of 30% of the said debt or Euro266,791.04;
- (b) Debt settlement agreement between KNMI, Unicredit Banca d'Impresa ("Unicredit"), Banc of America Securities Limited ("BASL") and FBM wherein KNMI agreed to purchase the face value debt booked at the Closing Date owing by FBM to Unicredit and BASL amounting to Euro7,198,984.02 and Euro5,841,109.27 respectively for a cash consideration of 30% of the said debt or Euro2,159,695.21 and Euro1,752,332.78 respectively
- (c) Debt settlement agreement between KNMI, Banca Popolare Commercio e Industria SpA ("BPCI") and FBM wherein KNMI agreed to purchase the face value debt booked at the Closing Date owing by FBM to BPCI amounting to Euro2,655,150.56 for a cash consideration of 30% of the said debt or Euro796,545.17; and
- (d) Debt settlement agreement between KNMI, Banca Regionale Europea SpA ("BRE") and FBM wherein KNMI agreed to purchase the face value debt booked at the Closing Date owing by FBM to BRE amounting to Euro390,748.73 for a cash consideration of 30% of the said debt or Euro117,224.62

(Collectively, the "Debt Settlement Agreements".)

In accordance with the terms of the Proposed FBM Acquisition, the Debt Settlement Agreements and the share sale agreement dated 31 December 2005 for the Proposed FBM Acquisition has been novated by KNMI to FBM Hudson Italiana BV, KNM's special purpose vehicle to undertake the Proposed FBM Acquisition.

The Proposed FBM Acquisition was completed on 12 April 2006.

KNM GROUP BERHAD
(Company No: 521348-H)

- (2) 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.

- (3) 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:-

- (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.

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

KNM GROUP BERHAD
(Company No: 521348-H)

	Total Proceeds RM'000	Utilised RM'000	Unutilised 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	<u>21,065</u>	<u>(21,008)</u>	<u>57</u>

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)	14,471
MUNIF	114,000
Bank Overdraft	3,994
Bill Payable	-
Hire purchase liabilities	313
	<u>132,778</u>
Long term :	
Borrowings (secured)	30,999
Hire purchases liabilities	994
	<u>31,993</u>

The above inclusive of borrowing in foreign currency of RMB29.02 million and EURO7.20 million.

The Exchange rates used are 1 RMB = RM 0.4603 and 1 EURO = RM4.4595

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	81,399	301,425
GBP	5	31
EURO	16,650	74,001
SGD	59	135
AUD	10,681	29,176
JPY	109,141	3,554
		<u>408,322</u>

KNM GROUP BERHAD
(Company No: 521348-H)

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 other than that recommended in the previous quarter.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 March 2006	31 March 2005	31 March 2006	31 March 2005
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	19,806	8,883	19,806	8,883
Number of shares at the beginning of the period ('000)	149,612	145,912	149,612	145,912
Effect of ESOS ('000)	322	1,170	322	1,170
Weighted average number of shares ('000)	149,934	147,082	149,934	147,082
Basic earnings per share (sen)	13.21	6.04	13.21	6.04

Individual Quarter		Cumulative Quarter	
31 March	31 March	31 March	31 March

KNM GROUP BERHAD
(Company No: 521348-H)

	2006	2005	2006	2005
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	19,806	8,883	19,806	8,883
Weighted average number of shares as per above ('000)	149,934	147,082	149,934	147,082
Number of shares under ESOS ('000)	10,816	12,879	10,816	12,879
Number of shares would have been issued at fair value('000)	(4,247)	(9,586)	(4,247)	(9,586)
	<hr/>			
Weighted average number of shares - diluted ('000)	156,503	150,375	156,503	150,375
	<hr/>			
Fully diluted earnings per share (sen)	12.66	5.91	12.66	5.91

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 25 May 2006.