KNM GROUP BERHAD

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

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

1. CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 30.9.2006 RM'000	3 months ended 30.9.2005 RM'000 (restated)	30.9.2006 RM'000	30.9.2005 RM'000 (restated)
Contract revenue		251,745	104,904	660,978	246,278
Operating profit		44,552	12,246	109,092	36,030
Financing costs		(3,395)	(146)	(8,714)	(2,637)
Interest income		716	236	954	663
Negative goodwill		(616)	-	33,301	623
Share of profit of jointly controlled entity		-	1,856	-	4,625
Profit before tax		41,257	14,192	134,633	39,304
Tax expense		(7,288)	(3,113)	(21,072)	(9,417)
Net profit for the period		33,969	11,079	113,561	29,887
Attributable to:					
Equity holders of the parent		28,262	11,079	107,486	29,887
Minority interest		5,707	-	6,075	-
		33,969	11,079	113,561	29,887
Earnings per share:					
- Basic (sen)		11.73	4.76	44.61	12.85
- Diluted (sen)		11.34	4.67	43.14	12.59

The notes set out on pages 5 to 17 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

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2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	NOTE	As at 30.9.2006 RM'000	As at 31.12.2005 (restated) RM'000
Assets			
Non-current assets			
Property, plant and equipment		407,225	139,345
Investment in jointly controlled entities		-	61,897
Other investment		2,313	-
		409,538	201,242
Current assets			
Inventories		23,017	4,771
Trade and other receivables		446,147	134,865
Cash and cash equivalents		73,273	17,511
		542,437	157,147
TOTAL ASSETS		951,975	358,389
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		127,843	74,806
Reserves		237,296	82,613
		365,139	157,419
Minority interest		18,096	-
Total Equity		383,235	157,419
Non-current liabilities			
Long term payable		27,771	-
Retirement benefit obligations		4,345	-
Borrowings	B9	65,563	15,162
Deferred taxation		10,130	10,130
		107,809	25,292
Current liabilities			
Trade and other payables		305,200	72,218
Borrowings	B9	118,206	94,242
Provision for taxation		37,525	9,218
		460,931	175,678
Total liabilities		568,740	200,970
TOTAL EQUITY AND LIABILITIES		951,975	358,389
Net assets per share attributable to equity holders of the parent (RM)		1.43	1.05

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KNM GROUP BERHAD
(Company No:521348-H)
(Incorporated in Malaysia)

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

		Attributable to equity holders of the parent						
			Non-Distributable		Distributable Reserve			
	No. of Shares RM'000	Share Capital RM'000	Share Premium RM'000	Revaluation and Other Reserve RM'000	(Accumulated Loss) / Retained Profit RM'000	Total RM'000	Minority Interest RM'000	Total equity 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 perio	-	-	-	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
Dividend paid	-	-	-	-	(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	5,503	2,752	10,336	-	-	13,088	-	13,088
- Private Placement	15,342	7,671	84,381	-	-	92,052	-	92,052
- Bonus issue	85,228	42,614	(42,614)	-	-	-		
Expenses not recognised in income statement								
- Listing expenses	-	-	(2,058)	-	-	(2,058)	-	(2,058)
Equity settled share-based transactions	-	-	-	546	-	546	-	546
Currency translation differences arising in the perio	-	-	-	2,129	-	2,129	(540)	1,589
Net Profit for the period	-	-	-	-	107,486	107,486	6,075	113,561
Dividend paid	-	-	-	-	(5,523)	(5,523)	-	(5,523)
As at 30 September 2006	255,685	127,843	53,683	9,784	173,829	365,139	18,096	383,235

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KNM GROUP BERHAD

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2006

(Unaudited)

	30.9.2006 RM '000	30.9.2005 RM '000
Net cash (used in)/generated from operating activities	(39,675)	60,457
Net cash used in investing activities	(15,870)	(46,125)
Net cash generated from /(used in) financing activities	104,676	(24,272)
Net increase in cash and cash equivalents	49,131	(9,940)
Cash and cash equivalents at beginning of year	15,649	25,169
Cash and cash equivalents at end of year	64,780	15,229

The notes set out on pages 5 to 17 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 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.

FRS 2: Share-based Payment

In prior years, no amount were recognized when employees including directors were granted share options over share in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

FRS 2 with effect from 1 January 2006, requires the Group to recognize the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted.

The financial impact to the Group arising from this change in accounting policy is a decrease in profit for the period of RM0.55 million.

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 and disclosed in Note B8(5):

	RM'000
Balance of MUNIF outstanding as at 1 January 2006	72,000
MUNIF Repaid	(30,000)
Balance of MUNIF outstanding as at 30 September 2006	42,000

As at 30 September 2006, the amount outstanding for Murabahah Underwritten Note Issuance Facility ("MUNIF") /Islamic Medium Term Notes ("IMTN") was RM42.0 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, 5,207,300 shares were exercised and 1,034,950 share options were lapsed primarily due to staff resignation. After taking into account these new shares alloted, the issued and paid up capital of the Company was increased to 255,685,350 and total number of unexercised share options as at date of report was 12,256,125.

A8. Dividend Paid

The first and final dividend of 5 sen per ordinary share of RM0.50 each less income tax of 28% amounting to RM5,523,000 recommended by Directors in respect of the year ended 31 December 2005 was paid on 8 August 2006.

A9. Segment information

Segmental analysis of the revenue and result :-

Business Segment:	**Revenue** 9 months ended 30.9.2006 RM'000	**Operating Profit** 9 months ended 30.9.2006 RM'000
Process equipment	660,803	108,978
Others	175	114
	660,978	109,092

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

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	17,000	174,920
Investment	-	83,602
	17,000	258,522

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	1,336

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

I.M.Bina Sdn Bhd **	
-General construction and civil works	4,674
-Manpower supply payable	711
Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	200

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

Hamilton Drive Properties Pty Limited ***	
-Rental of land for manufacturing facility	482

*** *a company in which Mr John 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 RM660.98 million and profit before tax and minority interest of RM134.63 million for the current period ended 30 September 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 RM251.75 million and net profit before taxation and minority interest of RM41.26 million for the third quarter ended 30 September 2006 were higher and lower by 7.18% and 36.43% compared to second quarter’s revenue of RM234.89 million and net profit before taxation and minority interest of RM64.90 million respectively. The decrease in net profit before tax was mainly due to one off negative goodwill of RM33.3 million has been recognized in the prior period.

The profit before taxation and minority interest excluding negative goodwill of RM41.87 million for third quarter ended 30 September 2006 was higher by 34.33% compared to second quarter’s figure of RM31.17 million mainly due to higher revenue recognized for the period.

B3. Current year prospects

The Board is confident that the Group’s results for the remaining period of the year will remain profitable.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	9 months ended 30.9.2006 RM’000	9 months ended 30.9.2005 RM’000
Income Tax expense :-		
Current	20,809	9,347
Prior period	263	70
	21,072	9,417

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) The Private Placement as announced on 25 April 2006 of 15,342,100 new ordinary shares of RM0.50 each of the Company was issued on 19 July 2006 and granted listing and quotation on the Main Board of the Bursa Malaysia with effect from 21 July 2006.

The status of utilization of the proceeds raised from the Private Placement exercise is follow:-

	Total Proceeds RM'000	Utilised RM'000	Unutilised RM'000
Repayment of Loan	73,000	(73,000)	-
General working capital requirement	17,053	(17,053)	-
Consultancy expenses	2,000	(2,000)	-
Total	92,053	(92,053)	-

(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 Issue) 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. The Bonus issue was effected by capitalization of the share premium and the retained profits of the Company. The new shares when issued, will rank pari passu in all aspect with the existing shares in issued.

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

(i) Bursa Malaysia Securities Berhad (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, while approval from Bursa Securities was obtained on 29 August 2006 for a bonus issue of up to 85,229,330 new ordinary shares of RM0.50 each (Bonus Shares). Arising from the above, 85,228,450 Bonus Shares were new ordinary shares of RM0.50 each were listed on 2 October 2006 pursuant to the 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 Sofinder 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, Myammar, 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

(1) The parties estimate that a paid up and issued share capital of between USD1.0 toUSD1.5 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 tobetween 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:-

(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 stragegic 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 final negotiation.

(5) KNM Capital Sdn Bhd, a wholly-owned subsidiary of KNM Group Berhad, obtained approval from Securities Commission (SC) on 14 September 2006 to issue up to RM300.0 million in Nominal Value Islamic Commercial Papers/Islamic Medium Term Notes under the ICP/IMTN Progamme.

KNMC was establish as the financial hub for KNM Group Berhad to centralize all treasury and funding activities of the KNM Group of companies.

The ICP/IMTN Programme shall have a maturity of up to 7 years from the date of the first issuance under the ICP/IMTN Programme and has been accorded an indicative short term rating of MARC-1ID and long term rating of A+ ID by Malaysian Rating Corporation Berhad.

The ICP of up to RM150.0 million to be issued under the ICP/IMTN Programme shall be underwritten subject to terms and conditions whilst the IMTN will not be underwritten. The ICP/IMTN under the ICP/IMTN Programme will be issued without prospectus via either bought deal, private placement, book-building or tender, as KNMC may decide.

The proceeds raised from the issuance of the ICP/IMTN will be advanced by KNMC to KNM and/or its other subsidiaries for the following purpose:-

(i) to redeem the KNM's entire outstanding amount of the Murabahah Underwritten Notes Issuance Facility/Islamic Medium Term Note Programme of up to RM150.0 million;
(ii) for investments to be undertaken by KNM and/or its subsidiaries in connection with the expansion of plants in China;
(iii) to finance future investments to be undertaken by KNM and/or its subsidiaries and its/their capital expenditure requirements; and
(iv) for working capital requirements of KNM and/or its subsidiaries and for payment of all fees and expenses in relation to the ICP/IMTN Programme.

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)	67,466
MUNIF	42,000
Bank Overdraft	8,493
Hire purchase liabilities	247
	118,206

Long term :	
Borrowings (secured)	62,997
Hire purchases liabilities	2,566
	65,563

The above inclusive of borrowing in foreign currency of RMB29.91 million, EURO13.67 million,AED5.92 million and AUD2.44 million.

The Exchange rates used are 1 RMB = RM 0.4671,1 EURO = RM4.6802,1 AED = RM0.9968 and 1 AUD = RM2.7549

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	98,919	356,172
GBP	96	667
EURO	8,236	26,634
SGD	571	1,319
AUD	6,958	19,043
JPY	654,595	14,041
		417,876

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.

B13. Earnings per share

	Individual Quarter		**Cumulative Quarter**	
	30 September 2006	**30 September 2005**	**30 September 2006**	**30 September 2005**
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	28,262	11,079	107,486	29,887
Number of shares at the beginning of the period ('000)	149,612	145,911	149,612	145,911
Effect of ESOS ('000)	2,106	1,487	2,106	1,487
Effect of Private Placement ('000)	3,990	-	3,990	-
Effect of Bonus issue issue ('000)	85,228	85,228	85,228	85,228
Weighted average number of shares ('000)	240,936	232,626	240,936	232,626
Basic earnings per share (sen)	11.73	4.76	44.61	12.85

	Individual Quarter		**Cumulative Quarter**	
	30 September 2006	**30 September 2005**	**30 September 2006**	**30 September 2005**
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	28,262	11,079	107,486	29,887
Weighted average number of shares as per above ('000)	240,936	232,626	240,936	232,626
Number of shares under ESOS ('000)	11,830	11,856	11,830	11,856
Number of shares would have been issued at fair value('000)	(3,594)	(7,053)	(3,594)	(7,053)

Weighted average number of shares - diluted ('000)	249,172	237,429	249,172	237,429
Fully diluted earnings per share (sen)	11.34	4.67	43.14	12.59

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 in accordance with a Board of Directors meeting on 23 November 2006.