KNM GROUP BERHAD

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

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

1. CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	Note	Individual Quarter		Cumulative Year to date	
		3 months ended 31.12.2006 RM'000	3 months ended 31.12.2005 RM'000 (restated)	31.12.2006 RM'000	31.12.2005 RM'000 (restated)
Contract revenue		256,278	97,658	917,257	343,936
Operating profit		31,816	17,939	140,908	53,969
Financing costs		(4,445)	(2,459)	(13,159)	(5,096)
Interest income		222	155	1,176	818
Negative goodwill		(6,861)	-	26,440	623
Share of profit of jointly controlled entity		-	(1,832)	-	2,793
Profit before tax		20,732	13,803	155,365	53,107
Tax expense		4,953	(2,518)	(16,119)	(11,935)
Net profit for the period		25,685	11,285	139,246	41,172
Attributable to:					
Equity holders of the parent		26,077	11,285	133,563	41,172
Minority interest		(392)	-	5,683	-
		25,685	11,285	139,246	41,172
Earnings per share:					
- Basic (sen)		10.65	4.84	54.56	17.67
- Diluted (sen)		10.31	4.76	52.80	17.35

The notes set out on pages 5 to 20 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 31.12.2006 RM'000	As at 31.12.2005 (restated) RM'000
Assets			
Non-current assets			
Intangible Assets		4,200	-
Property, plant and equipment		393,953	127,527
Investment in jointly controlled entities		-	61,897
Other investment		2,304	-
Prepaid lease payments		11,569	11,818
Deferred Tax Asset		43,355	-
		455,381	201,242
Current assets			
Inventories		24,756	4,771
Trade and other receivables		459,826	134,865
Cash and cash equivalents		91,447	17,511
		576,029	157,147
TOTAL ASSETS		1,031,410	358,389
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		128,891	74,806
Reserves		262,337	82,613
		391,228	157,419
Minority interest		14,416	-
Total Equity		405,644	157,419
Non-current liabilities			
Long term payable		28,677	-
Retirement benefit obligations		2,535	-
Borrowings	B9	44,099	15,162
Deferred taxation		50,633	10,130
		125,944	25,292
Current liabilities			
Trade and other payables		309,196	72,218
Borrowings	B9	155,423	94,242
Provision for taxation		35,203	9,218
		499,822	175,678
Total liabilities		625,766	200,970
TOTAL EQUITY AND LIABILITIES		1,031,410	358,389
Net assets per share attributable to equity holders of the parent (RM)		1.52	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 31 DECEMBER 2006
(Unaudited)

		Attributable to equity holders of the parent						
			Non-Distributable		Distributable Reserve			
	No. of Shares 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 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
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	-	-	-	-	-	-	9,138	9,138
Issue of shares pursuant to:								
- ESOS	7,600	3,800	12,501	-	-	16,301	-	16,301
- 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	-	-	(2,070)	-	-	(2,070)	-	(2,070)
Equity settled share-based transactions	-	-	-	541	-	541	-	541
Currency translation differences arising in the period	-	-	-	(1,055)	-	(1,055)	(405)	(1,460)
Net Profit for the period	-	-	-	-	133,563	133,563	5,683	139,246
Dividend paid	-	-	-	-	(5,523)	(5,523)	-	(5,523)
As at 31 December 2006	257,782	128,891	55,836	6,595	199,906	391,228	14,416	405,644

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KNM GROUP BERHAD

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD END 31 DECEMBER 2006

(Unaudited)

	31.12.2006 RM '000	31.12.2005 RM '000
Net cash (used in)/generated from operating activities	(31,956)	97,044
Net cash used in investing activities	(19,968)	(58,355)
Net cash generated from /(used in) financing activities	114,532	(48,209)
Net increase in cash and cash equivalents	62,608	(9,520)
Cash and cash equivalents at beginning of year	15,649	25,169
Cash and cash equivalents at end of year	78,257	15,649

The notes set out on pages 5 to 20 form an integral part of and should be read in conjunction with this interim financial report

Notes to the quarterly Interim Financial Report – 31 December 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
FRS 117	Leases

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

FRS 124	Related Party Disclosures

The adoption of FRS 2,3,5,108,110,116,121,127,128,131,132,133,136,117 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 RM0.54 million.

FRS 117: Leases (Leasehold land held for own use)

In prior years, the leasehold interest in land held for own use classified as property, plant and equipment, were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

With the adoption of FRS117 as from 1 January 2006, the leasehold interest in the land held for own use is accounted for as being held under an operating lease. Such leasehold land will no longer be revalued. Where the leasehold land had been previously revalued, the Group retained the unamortized revalued amount as the surrogate carrying amount of prepaid lease payments as allowed by FRS117.67A. Such prepaid lease payments are amortised on a straight line basis over the remaining lease term of the land.

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	(72,000)
Balance of MUNIF outstanding as at 31 December 2006	-

	RM'000
Balance of ICP outstanding as at 1 January 2006	-
ICP withdrawn	108,000
Balance of ICP outstanding as at 31 December 2006	108,000

During the year, all the amount outstanding for Murabahah Underwritten Note Issuance Facility ("MUNIF")/ Islamic Medium Term Notes ("IMTN") was repaid.

As at 31 December 2006, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") was RM108.0 million out of the limit of RM300.0 million, mainly used for repayment of bank borrowings, finance capital expenditure and working capital. The entire RM300.0 million ICP/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, 7,912,600 shares were exercised and 1,083,250 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 258,390,650 and total number of unexercised share options as at date of report was 9,5,02,525.

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**
	12 months ended	12 months ended
	31.12.2006	31.12.2006
	RM'000	RM'000
Process equipment	917,082	140,794
Others	175	114
	917,257	140,908

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	19,597	167,189
Investment	-	92,955
	19,597	260,144

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	1,784

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

I.M.Bina Sdn Bhd **	
-General construction and civil works	7,673
-Manpower supply payable	711
Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	237

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

Hamilton Drive Properties Pty Limited ***	
-Rental of land for manufacturing facility	665

**** 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 RM917.26 million and profit before tax and minority interest of RM155.37 million for the current period ended 31 December 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 RM256.28 million and net profit before taxation and minority interest of RM20.73 million for the fourth quarter ended 31 December 2006 were higher and lower by 1.80% and 49.76% compared to third quarter's revenue of RM251.75 million and net profit before taxation and minority interest of RM41.26 million respectively. The decrease in net profit before tax was mainly due to reduction of negative goodwill.

B3. Current year prospects

The Board is confident that the Group's results for the year 2007 will be profitable.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	12 months ended 31.12.2006 RM'000	**12 months ended 31.12.2005 RM'000**
Income Tax expense :-		
Current	21,968	8,822
Prior period	(2,997)	24
Deferred Taxation	(2,852)	3,089
	16,119	11,935

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) **Shareholder Agreement between KNM Renewable Energy Sdn Bhd and Crown Iron Works Company**

KNM Group Berhad had on 8 February 2007 acquired the entire issued and paid up shares in KNM Renewable Energy Sdn Bhd (KNMRE) (formerly known as Prima Agrimate Sdn Bhd) for a cash consideration of Ringgit Malaysia RM2.00. KNMRE was incorporated on 4 October 2006 and has not commenced operations since its date of incorporation.

On 9 February 2007, KNM Renewable Energy Sdn Bhd (KNMRE), a wholly owned subsidiary of KNM Group Berhad had on 9 February 2007 entered into an exclusive Shareholders Agreement (SA) with Crown Iron Works Company (Crown), a company based in Delaware, United States of America in respect of the marketing, advertising, promotion, tendering and sale of engineering procurement construction and commissioning (EPCC) basis for biodiesel, oleochemicals, refining and solvent extraction plants.

Under the SA, KNMRE and Crown agree to jointly undertake business activities on an exclusive basis in relation to:-

(i) the marketing, advertising, promotion, tendering and sale of engineering procurement construction and commissioning (EPCC) basis for biodiesel, oleochemicals, refining and solvent extraction plants (Plants) in Malaysia, Indonesia, Thailand, Vietnam, Australia, Singapore, New Guinea, New Zealand, Philippines, Myanmar, Laos, Cambodia and Brunei (Territory);
(ii) the negotiation, execution and delivery of agreements with customers relating to the construction, tendering and sale of the Plants; and
(iii) project management and contract administration.

KNMRE and Crown will incorporate and subscribe for shares in a joint venture company (JVC) which will undertake the intended business activities above 60% equity interest in JVC will be held by KNMRE and 40% equity interest will be held by Crown. The JVC's issued and paid up share capital shall be RM500,000 and the board of directors of JVC shall comprise of 3 directors nominated by KNMRE and 2 directors nominated by Crown.

Information on Crown

(i) Crown was incorporated in 1878 and is based in Roseville, Minnesota, United States of America.

(ii) Crown is a global leader in oilseed processing and supplies process engineering technology and equipment in preparation dehulling, solvent extraction, refining, bleaching & deodorizing, oleochemical & biodiesel, and specialty processing/supercritical extraction plants.
(iii) Crown specialises in preparation, solvent extraction, oil and fat refining, methyl ester and glycerine refining technologies, along with a host of specialty extraction and leading-edge technologies development. Crown also owns patented continuous pretreatment, biodiesel, fractionation, and glycerine processing technology that is used worldwide.
(iv) Crown has engineering and manufacturing facilities in the United Kingdom, Argentina, Brazil, Honduras, India, Mexico, Russia and China.

The SA will enable KNMRE to tap into the growing renewable energy industry, in particular biodiesel and oilseed extraction, in the Territory. For such purpose, KNMRE is collaborating with Crown on an exclusive basis in the Territory. Crown is a leading global technology provider for biodiesel and oilseed extraction plants.

(2) As announced on 16 January 2007, FBM Hudson Italiana BV, (FBMBV), an indirect wholly-owned subsidiary of the Company received a confirmation on 15 January 2007 from Fraser Milner Casgrain LLP of 2900 Manulife Place, 10180-101 Street, Edmonton, Alberta, Canada T5J 3V5, the Company's appointed solicitors in Edmonton, Alberta, Canada, that KNM Corporation, KNM Process Equipment Inc and KNM Industries Inc were incorporated on 12 January 2007 as either direct or indirect wholly-owned subsidiaries of FBM BV.

（3） As announced on 6 December 2006, KNM International Sdn Bhd (KNMI), a wholly-owned subsidiary of the Company had on 30 November 2006 completed the incorporation of KNM Sistemas de Processamento do Brasil Ltda. (KNM Sistemas) as a subsidiary of KNMI.

KNM Sistemas was incorporated in Vitoria, State of Espirito Santo, Brazil on 21 August 2006. KNM Sistemas has not commenced operations since its date of incorporation. KNM Sistemas' corporate capital, fully subscribed, is Brazilian Reais (R$) Four Hundred and Fifty Thousand (450,000.00), divided into 450,000 quotas of R$1.00 each.

The Articles of Association of KNM Sistemas allows for the corporate capital of KNM Sistemas to be fully paid within 5 years from the date of registration of the private instrument of incorporation of KNM Sistemas in the Commercial Registry of the State of Espirito Santo, Brazil. The private instrument of incorporation of KNM Sistemas was duly registered on 21 August 2006.

Arising from the above, KNMI had on 21 August 2006 subscribed for 449,999 quotas in KNM Sistemas without consideration. The balance 1 quota was initially subscribed by Walter Stuber, a Brazilian citizen with an address at c/o Walter Stuber Consultoria Juridica, Rua Tabapua, 474, 6 Amdar. Conj 66, Itaim Bibi, Sao Paulo, Brazil. The 1 quota was subsequently transferred to and subscribed by EmpreCon Administracao e Participacoes Ltda (EmpreCon), a limited liability company incorporated in and under the laws of Brazil, on 29 September 2006.

KNMI subsequently paid for 449,999 quotas in KNM Sistemas on 30 November 2006, which completes the incorporation process of KNM Sistemas. The consideration for the quotas subscribed by KNMI amounted to R$449,000.00, which is equivalent to RM837,066.00, based on an exchange rate of RM1.00:R$0.54.

(4) As announced on 20 December 2006, KNM International Sdn Bhd (KNMI), a wholly-owned subsidiary of the KNM received a confirmation on 19 December 2006 from CT Karuppan Chetty, Chartered Accountant, of 14, Alagar Nagar, Rettaivaikkai, Vayalore Road, Trichy- 620102, India, that KNMI had on 7 December 2006 acquired the entire issued and paid up shares in KNM Engineering

Services Pty Ltd (KNMES) for a cash consideration of Indian Rupees (Rs) One Lakh (100,000), which is equivalent to RM7,983.65 based on an exchange rate of RM1.00:RP12.63.

KNMES has an authorized capital of Indian Rupees Two Lakhs (Rs.200,000), divided into 20,000 ordinary shares of Rs10.00 each of which 10,000 ordinary shares are issued and fully paid up.

KNMI had on 7 December 2006 acquired the entire issued and paid up capital in KNMES at a consideration of Indian Rupees One Lakh (Rs100,000), equivalent to RM7,983.65, based on an exchange rate of RM1.00:RP12.63 from Thirucheeswaran s/o Sadhanandham and Anitha w/o Thirucheeswaran, both Indian nationals with a residential address at New No.11, Old No. 14, Mela Pandamangalm Lingam Nagar, Thiruchirappalli-620003, Tamil Nadu, India.

(5) **Proposed Acquisition by KNM Process Systems Sdn Bhd ("KNMPS"), A wholly-owned subsidiary of KNM of 49% (Less One (1) Share) Equity interest in KNM PTY LTD ("KPL") ("Proposed Acquisition")**

KNM Process Systems Sdn Bhd (KNMPS), had on 27 November 2006 entered into a share purchase agreement ("SPA") with Process Heat Transfer Pty Ltd ("KPL Vendor"or "PHT") and shareholders of PHT to acquire 49% (less one(1) share) equity interest in KPL comprising 2,107,000 fully paid-up ordinary shares for a cash consideration of Australian Dollars ("AUD")5,445,000 ("Cash consideration"), which is equivalent to RM15,409,350 (based on an exchange rate of RM2.83:AUD1.00).

Under the SPA, KNMPS may complete the Proposed Acquisition by one of the following options by means of issuance of an election notice within 30 days from the date of the SPA, to be exercised by KNMPS at its absolute discretion:
(a) KNMPS acquiring all of PHT's interest in KPL;
(b) KNMPS acquiring all of the PHT shareholders' interest in PHT; or
(c) KNMPS acquiring a portion of PHT

The cash consideration is expected to be funded through a combination of internally generated funds and bank borrowings. The cash consideration was arrived at based on a willing buyer-willing seller basis after taking into consideration:-
(i) the current financial position of the KPL and its subsidiaries ("KPL Group");
(ii) the historical performance of the KPL and its subsidiaries; and
(iii) the potential future earnings of KPL and its subsidiaries

The Proposed Acquisition is not expected to give rise to any additional financial commitment to put the KPL Group on-steam.

Salient Terms of the SPA
The salient terms of the SPA, include the following:-
(a) KNMPS shall acquire the 49% (less one (1) share) equity interest in KPL for the Cash Consideration free from any right, entitlement, interest, power, authority, discretion, claim or remedy in or over any asset as well as third party rights but together with all rights attached and accrued to them on or after the date of completion of the SPA ("Completion Date") and subject to the SPA.
(b) The Cash Consideration shall be satisfied within five (5) business days of the satisfaction of the conditions precedent and relevant requirement as contained in the SPA.
(c) The SPA to be executed shall contain, inter alia the following conditions precedent:
    (i) KNMPS obtaining Bank Negara Malaysia approval;
    (ii) Australia and New Zealand Banking Group Limited ("ANZ") and any other applicable third parties consenting to the Proposed Acquisition (and such further confirmation that

such third parties will not terminate agreements with KPL, or its related bodies corporate as a result of the Proposed Acquisition);

(iii) Written correspondence from ANZ addressed to the person or persons who have provided securities to ANZ to secure the banking facilities of KPL confirming the unconditional full discharge and release of the said securities within 30 business days of the Completion Date;

(iv) KPL and Hamilton Drive Property Pty Ltd as trustee for the Hamilton Drive Property Trust, being the landlord for the property utilized by KPL at Hamilton Drive, Boambee, Coffs Harbour, New South Wales, Australia ("Coffs Harbour Property") entering into a further lease in relation to the Coffs Harbour Property on such terms as are acceptable to KNMPS;

(v) Documentation evidencing the transfer of the PHT Shareholders' interest in PT Heat Exchangers Indonesia to a nominee of KNMPS;

(vi) ANZ's irrevocable consent in writing acceptable by KNMPS to provide bank guarantees amounting to AUD2.043 million or such other amount as is mutually agreed in writing immediately prior to Completion Date to KNMPS; and

(vii) The resignation of PHT;s nominee from the KPL Board of Directors

KNMPS will not assume any liabilities of KPL under the Proposed Acquisition. The existing liabilities of KPL will be settled by KPL in the normal course of business.

The rationale for the Proposed Acquisition is that KNMPS had on 18 January 2006 completed the acquisition of 51% (plus one (1) share) equity interest in KPL. The Proposed Acquisition will result in KNMPS acquiring the balance 49% (less one (1) share) equity interest in KPL, directly or indirectly, in order for KNM to control 100% of KPL. Apart from having full control of KPL operations, the Proposed Acquisition will also result in increased contribution of profit attributable to shareholders of KNM from KPL.

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed within three (3) months from the date of this announcement.

(6) 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)	-

(7) 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.

(8) 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.

(9) 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 established 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.

All agreements in relation to the ICP/IMTN Programme were executed on 25 September 2006.

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)	33,344
ICP	108,000
Bank Overdraft	13,190
Hire purchase liabilities	889
	155,423

Long term :	
Borrowings (secured)	42,285
Hire purchases liabilities	1,814
	44,099

The above inclusive of borrowing in foreign currency of RMB25.05 million, EURO9.67 million and AUD0.06 million.

The Exchange rates used are 1 RMB = RM 0.4528,1 EURO = RM4.6618, and 1 AUD = RM2.7871

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	96,152	347,730
GBP	297	1,890
EURO	11,449	53,104
SGD	2,509	5,788
AUD	7,188	19,819
JPY	555,899	11,598
		439,929

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

The Directors recommend a final dividend of 5 sen per 50 sen ordinary shares tax exempt amounting to RM12,889,118 assuming based on 257,782,350 ordinary shares outstanding at 31 December 2006.

B13. Earnings per share

	Individual Quarter		**Cumulative Quarter**	
	31 December 2006	**31 December 2005**	**31 December 2006**	**31 December 2005**
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	26,077	11,285	133,563	41,172
Number of shares at the beginning of the period ('000)	149,612	145,911	149,612	145,911
Effect of ESOS ('000)	3,125	1,883	3,125	1,883
Effect of Private Placement ('000)	6,851	-	6,851	-
Effect of Bonus issue issue ('000)	85,228	85,228	85,228	85,228
Weighted average number of shares ('000)	244,816	233,022	244,816	233,022
Basic earnings per share (sen)	10.65	4.84	54.56	17.67

	Individual Quarter		Cumulative Quarter	
	31 December 2006	**31 December 2005**	**31 December 2006**	**31 December 2005**
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	26,077	11,285	133,563	41,172
Weighted average number of shares as per above ('000)	244,816	233,022	244,816	233,022
Number of shares under ESOS ('000)	9,897	10,241	9,897	10,241
Number of shares would have been issued at fair value('000)	(1,763)	(6,007)	(1,763)	(6,007)
Weighted average number of shares - diluted ('000)	252,950	237,256	252,950	237,256
Fully diluted earnings per share (sen)	10.31	4.76	52.80	17.35

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 26 February 2007.