

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 MARCH 2010 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Year to date	
	Unaudited	Unaudited	Unaudited	Restated
	3 months ended	3 months ended	31.3.2010	31.3.2009
	31.3.2010	31.3.2009	RM'000	RM'000
Contract revenue	<u>373,301</u>	<u>525,453</u>	<u>373,301</u>	<u>525,453</u>
Operating profit	11,323	151,124	11,323	151,124
Financing costs	(12,519)	(31,677)	(12,519)	(31,677)
Interest income	1,447	5,513	1,447	5,513
Goodwill written off	-	-	-	-
Share of profit/(loss) of jointly controlled entities	(2)	(14)	(2)	(14)
Profit before tax	<u>249</u>	<u>124,946</u>	<u>249</u>	<u>124,946</u>
Tax expense	39,794	(27,655)	39,794	(27,655)
Net profit for the period	<u>40,043</u>	<u>97,291</u>	<u>40,043</u>	<u>97,291</u>
Other comprehensive income, net of tax				
Foreign currency translation differences	(96,262)	(45,783)	(96,262)	(45,783)
Net gain/(loss) on hedge of net investment in foreign subsidiaries	(141,719)	(11,244)	(141,719)	(11,244)
Cash Flow hedge	(18)	-	(18)	-
Other comprehensive income for the period, net of tax	<u>(237,999)</u>	<u>(57,027)</u>	<u>(237,999)</u>	<u>(57,027)</u>
Total comprehensive income for the period	<u>(197,956)</u>	<u>40,264</u>	<u>(197,956)</u>	<u>40,264</u>
Attributable to:				
Equity holders of the parent	40,334	98,449	40,334	98,449
Minority interest	(291)	(1,158)	(291)	(1,158)
	<u>40,043</u>	<u>97,291</u>	<u>40,043</u>	<u>97,291</u>
Total comprehensive income attributable to:				
Equity holders of the parent	(197,426)	40,555	(197,426)	40,555
Minority interest	(530)	(291)	(530)	(291)
Total comprehensive income for the period	<u>(197,956)</u>	<u>40,264</u>	<u>(197,956)</u>	<u>40,264</u>
Earnings per share:				
- Basic (sen)	1.02	2.51	1.02	2.51
- Diluted (sen)	N/A	2.50	N/A	2.50

The notes set out on pages 5 to 18 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 STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.3.2010	Restated As at 31.12.2009
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets		692,901	782,670
Goodwill		856,974	955,173
Property, plant and equipment		770,952	823,695
Prepaid lease payments		11,772	12,321
Other investment		-	2,632
AFS investment		2,402	-
Investment in associates		2,048	1,652
Deferred Tax Asset		142,162	107,119
		<u>2,479,211</u>	<u>2,685,262</u>
Current assets			
Inventories		100,038	106,571
Contracts work in progress		382,214	384,632
Trade and other receivables		328,994	385,624
Cash and cash equivalents		496,670	571,723
		<u>1,307,916</u>	<u>1,448,550</u>
TOTAL ASSETS		<u>3,787,127</u>	<u>4,133,812</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		1,001,093	1,001,093
Treasury Shares		(34,140)	(34,132)
Reserves		832,651	1,041,725
		<u>1,799,604</u>	<u>2,008,686</u>
Minority interest		<u>2,607</u>	<u>3,046</u>
Total Equity		<u>1,802,211</u>	<u>2,011,732</u>
Non-current liabilities			
Long term payable		22,344	32,810
Long service leave liability		3,285	3,302
Loans and borrowings	B9	572,662	592,037
Deferred taxation		302,910	338,440
		<u>901,201</u>	<u>966,589</u>
Current liabilities			
Payables and accruals		380,100	387,657
Customers advance for contract work in progress		134,372	107,901
Loans and borrowings	B9	584,559	663,185
Current tax liabilities		(15,316)	(3,252)
		<u>1,083,715</u>	<u>1,155,491</u>
Total liabilities		<u>1,984,916</u>	<u>2,122,080</u>
TOTAL EQUITY AND LIABILITIES		<u>3,787,127</u>	<u>4,133,812</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.45</u>	<u>0.50</u>

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
 ENDED 31 MARCH 2010**

	Attributable to equity holders of the parent						Distributable Reserve		Minority Interest RM'000	Total equity RM'000
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000	Hedging Reserve RM'000	AFS Reserve RM'000	Revaluation and Other Reserve RM'000	(Accumulated Loss) / Retained Profit RM'000	Total RM'000		
As at 1 January 2009	989,610	(21,006)	319,139	-	-	(80,533)	606,683	1,813,893	6,224	1,820,117
Total comprehensive income for the period	-	-	-	-	-	(57,894)	98,449	40,555	(291)	40,264
Transaction with owners in their capacity as owner										
Issue of shares pursuant to: - ESOS	4,865	-	-	-	-	-	-	4,865	-	4,865
Share Buy Back	-	(2,983)	-	-	-	-	-	(2,983)	-	(2,983)
Transfer to share premium for share options exercised	-	-	34	-	-	(34)	-	-	-	-
Dividend paid	-	-	-	-	-	-	(52,596)	(52,596)	-	(52,596)
As at 31 March 2009	994,475	(23,989)	319,173	-	-	(138,461)	652,536	1,803,734	5,933	1,809,667
As at 1 January 2010	1,001,093	(34,132)	319,426	-	-	(95,732)	818,031	2,008,686	3,046	2,011,732
Effect arising from adoption of FRS 139	-	-	-	(6,274)	30	-	(5,404)	(11,648)	-	(11,648)
As at 1 January 2010, restated	1,001,093	(34,132)	319,426	(6,274)	30	(95,732)	812,627	1,997,038	3,046	2,000,084
Total comprehensive income for the period	-	-	-	(18)	-	(237,742)	40,334	(197,426)	(530)	(197,956)
Transaction with owners in their capacity as owner										
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	91	91
Share Buy Back	-	(8)	-	-	-	-	-	(8)	-	(8)
As at 31 March 2010 (Unaudited)	1,001,093	(34,140)	319,426	(6,292)	30	(333,474)	852,961	1,799,604	2,607	1,802,211

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2010

	31.3.2010	31.3.2009
	RM	RM
	'000	'000
	Unaudited	Unaudited
Net cash generated from operating activities	53,576	71,739
Net cash used in investing activities	(19,065)	(16,731)
Net cash used in financing activities	(107,235)	(45,730)
Net (decrease)/increase in cash and cash equivalents	<u>(72,724)</u>	<u>9,278</u>
Cash and cash equivalents at beginning of year	553,783	516,153
Cash and cash equivalents at end of period	<u><u>481,059</u></u>	<u><u>525,431</u></u>
Cash & bank balances	258,692	321,921
Deposits with financial institutions	129,126	14,875
Deposits with licensed banks	<u>108,852</u>	<u>188,741</u>
	496,670	525,537
Bank overdraft	<u>(15,611)</u>	<u>(106)</u>
	<u><u>481,059</u></u>	<u><u>525,431</u></u>

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Notes to the quarterly Interim Financial Report – 31 March 2010

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 2009. 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 2009.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2009, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2010.

On 1 January 2010, the Group adopted the following FRSs:-

FRSs, Amendments to FRSs and Interpretations	
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 1	First-time Adoption of Financial Reporting Standards
Amendment to FRS 2	Share-based Payment: Vesting Conditions and Cancellation
Amendment to FRS 5	Non-current asset held for sale and discontinued operations
Amendment to FRS 7	Financial Instruments: Disclosures
Amendment to FRS 8	Operating Segments
Amendment to FRS 107	Statement of Cash Flows
Amendment to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendment to FRS 110	Events after the Reporting Period
Amendment to FRS 116	Property, Plant and Equipment
Amendment to FRS 117	Leases
Amendment to FRS 118	Revenue
Amendment to FRS 119	Employee Benefits
Amendment to FRS 120	Accounting for Government Grants and Disclosure of

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	Government Assistance
Amendment to FRS 123	Borrowing Costs
Amendment to FRS 127	Consolidated and Separate Financial Statements (revised)
Amendment to FRS 128	Investment in Associates
Amendment to FRS 129	Financial Reporting in Hyperinflationary Economies
Amendment to FRS 131	Interest in Joint Venture
Amendment to FRS 132	Financial Instruments: Presentation
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 136	Impairment of Assets
Amendment to FRS 138	Intangible Assets
Amendment to FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 140	Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2-Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Other than for the application of FRS 7, FRS8, FRS 101 and FRS139, the application of the above FRSs, Amendments to FRSs and Interpretations did not result in any significant changes in the accounting policies and presentation of the financial result of the Group.

(a) FRS 7: Financial Instrument: Disclosures

Prior to 1 January 2010, information about financial instrument was disclosed in accordance with the requirements of FRS 132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk and sensitivity analysis to market risk.

This is a disclosure standard with no impact on the financial position or financial performance of the Group.

(b) FRS 8: Operating Segments (FRS 8)

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group's segmental reporting had been presented based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This standard does not have any impact on the financial position and results of the Group.

(c) FRS 101: Presentation of Financial Statements (FRS 101)

Pre-FRS 101 Revision	Post-FRS 101 Revision
Balance Sheet	Statement of Financial Position
Income Statement	Statement of Comprehensive Income

FRS 101 separates owner and non-owner changes in equity. Therefore, the current consolidated statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. This standard does not have any impact on the financial position and results of the Group.

(d) FRS 139 : Financial Instruments – Recognition and Measurement (FRS 139)

(i) Initial recognition and measurement

A financial instrument is recognized in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is recognized initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial assets

Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivative (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorized as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognized in profit or loss.

Held to maturity investments

Held to maturity investments category comprises debt instruments that are quoted in an active market and the Group has the positive intention and ability to hold to maturity.

Financial assets categorized as held to maturity investments are subsequently measured at amortised cost using the effective interest method.

Loan and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorized as loans and receivables are subsequently measured at amortised cost using the effective interest method.

Available-for-sale financial assets

Under FRS 139, AFS financial asset is measured at fair value initially and subsequently with amortization of premium with accretion of discount and other accrual of income recognized in statement of comprehensive income and with unrealized gains or losses recognized as other comprehensive income in the AFS reserve until the investment is derecognized, at which time

the cumulative gain or loss is recognized in the statement of comprehensive income or determined to be impaired, at which time the cumulative loss is recognized in the statement of comprehensive income and removed from the AFS reserve.

(iii) Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorized as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

(iv) Hedge accounting

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognized in profit or loss. The gain or loss on the hedged item, except for hedge item categorized as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognized in profit or loss. For a hedge item categorized as available-for-sale, the fair value gain or loss attributable to the hedge risk is recognized in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion is recognized in profit or loss.

Subsequently, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognized in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognized in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in other comprehensive income until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognized in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

(v) Derivatives

Prior to the adoption of FRS139, derivative contracts were recognized in the financial statements on settlement date. With the adoption of FRS139, derivative contracts are now categorized as fair value through profit or loss and measured at their fair values with the gain or loss recognized in the profit or loss other than derivatives designated as hedging instrument which are accounted for in accordance with the hedge accounting requirements as described in the hedge accounting as detailed above.

Impact on opening balances

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the balance sheet as at 1 January 2010.

	Previously stated	Effect of FRS 139	As restated
	RM'000	RM'000	RM'000
Assets			
Other investments	2,632	(2,632)	-
Long term AFS investment	-	2,662	2,662
Equity			
AFS reserve	-	30	30
Hedging reserve	-	(6,274)	(6,274)
Retained earnings	818,031	(5,404)	812,627

(e) IC Interpretation 10, Impairment and Interim Financial Reporting

With the adoption of IC Interpretation 10 and FRS 139 on 1 January 2010, the policy has been changed to conform to the impairment requirements of FRS 139. Impairment losses recognized for available-for-sale equity investments in an interim period are not reversed in a subsequent interim period. This change in basis has no effect on the profit or loss for the current period ended 31 March 2010.

(f) Amendment to FRS 117, Leases

Prior to the adoption of the Amendment to FRS 117, leasehold land were treated as operating leases. The considerations paid were classified and presented as prepaid lease payments in the statement of financial position. With the adoption of the Amendment to FRS 117, the classification of a leasehold land as a finance lease or an operating lease is based on the extent to which the risks and rewards incident to ownership lie.

Accordingly, the Group has changed the classification of long leasehold land with remaining lease period exceeding 50 years from operating leases to finance leases in the current quarter. This change in classification has no effect on the profit or loss of the current period ended 31 March 2010 or the comparative prior period. The effect of the reclassification on the comparative of the prior years's statement of financial position is as follows:

	As restated	As previously stated
	RM'000	RM'000
Property, plant and equipment	823,695	810,800
Prepaid lease payments	12,321	25,216

A3. Qualification of annual financial statements

There were no audit qualifications on the annual financial statements of the Group for the year ended 31 December 2009.

A4. Seasonal and cyclical factors

The Group's business operation results were not materially affected by any major seasonal or cyclical factors.

A5. Unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows

There were no unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows for the current quarter and financial period to date.

A6. Material changes in estimates

There were no material changes in estimates of amount reported in the current quarter.

A7. Issuances and repayment of debt and equity securities

A. There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period to date other than those stated below:

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	RM'000
Opening Balance of ICP/IMTN outstanding as at 1 January 2010	270,000
ICP/IMTN Drawdown/(Repayment)	<u>15,000</u>
Balance of ICP/IMTN outstanding as at 31 March 2010	<u>285,000</u>

As at 31 March 2010, the amount outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) is RM285.0 million out of the limit of RM285.0 million, mainly used for repayment of bank borrowings and working capital. Under the program, up to RM150 million is fully underwritten by Malayan Banking Berhad & AMInvestment Bank Berhad and has a tenure of 7-years from the date of issuance.

- B. As at the date of this report, the Company has repurchased a total 74,089,500 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM0.57 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares and treated in accordance with the requirement of Section 67A of the Companies Act 1965.

A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Business Segment:	Revenue	Operating Profit
	3 months ended	3 months ended
	31.3.2010	31.3.2010
	RM'000	RM'000
Process equipment	373,301	11,323
Others	-	-
	<u>373,301</u>	<u>11,323</u>

Geographical segments:

	Revenue	Operating Profit
	3 months ended	3 months ended
	31.3.2010	31.3.2010
	RM'000	RM'000
Asia & Oceania	86,615	(3,690)
Europe	255,611	15,036
Americas	31,075	(23)
Total	<u>373,301</u>	<u>11,323</u>

A10. Valuation of property, plant and equipment

Property, plant and equipment of the Group are stated at cost/valuation less accumulated depreciation and accumulated impairment losses where applicable.

There is no revaluation of property, plant and equipment during the period under review.

A11. Material events subsequent to the end of the interim period

There was no material event subsequent to the end of the reporting period and up to the date of issuance of this report other than those disclosed under item no. B8.

A12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial period to date.

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	41,536	42,630
Investment	-	-
	<u>41,536</u>	<u>42,630</u>

A15. Related party transactions

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

	RM '000
Inter Merger Sdn Bhd (a)	
- Office rental, related charges and administrative expense	428
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	766
IMT O&G Solutions Sdn Bhd (Formerly known as Inter Merger Trading Sdn Bhd) (c)	
-Supply of production materials and fixed assets	18
Tofield Realty Development Corporation (d)	
- General and civil contractor and provider of staff accomodation	-
Nassir Hazza (e)	
- General construction, civil and related mechanical and engineering work	338
KPS Technology & Engineering LLC(f)	
-Provision/Receipt of mechanical and engineering, general administrative and other support services	(696)
-Provision/Receipt of qualifying services under the overseas head quarters (OHQ) status and other support services	

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

(b) a company in which Inter Merger Sdn Bhd is the holding company

(c) a company in which Inter Merger Sdn Bhd is the holding company

(d) a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors and shareholders

(e) Nassir Hazza is an entity controlled by Mohammed Nassir Hazza Al Fehaid Al Subaei, a director of KNM Saudi Limited Co

(f) a company in which Mr. Lee Swee Eng is a substantial shareholder

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

B1. Review of performance

The Group achieved revenue of RM373.30 million, profit after tax and minority interest of RM40.33 million and EBITDA (Earning Before Interest, Tax, Depreciation and Amortisation) of RM35.13 million for the current period ended 31 March 2010. Compare to the previous year, the lower performance in this period was resulted from lower utilization of capacity.

B2. Variation of results against preceding quarter

The Group's revenue of RM373.3 million is lower by 10.38% compared to fourth quarter's revenue of RM416.52 million. Meanwhile, this quarter reported profit before taxation and minority interest is recorded better at RM0.25 million as compared to fourth quarter loss before taxation and minority interest of RM80.9 million. The difference in the profitability was due to one off foreseeable losses provision in the previous quarter.

B3. Current year prospects

The Board is confident that the Group's results for the year 2010 will continue to be profitable.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months ended 31.3.2010 RM'000	3 months ended 31.3.2009 RM'000
Income Tax expense :-		
Current	6,706	55,664
Prior period	470	-
Deferred tax	(46,970)	(28,009)
	<u>(39,794)</u>	<u>27,655</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 period to date.

B7. Quoted and marketable investments

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

B8. Status of corporate proposals announced but not completed

- (1) On 4 February 2010 the Company announced that it received from Blue Fire Capital Group Ltd (“Bidco”), an entity controlled by Ir. Lee Swee Eng, the Group Managing Director and major shareholder of KNM, a proposal to acquire the entire business and undertakings of KNM (“the Proposal”). The proposed price is equivalent to RM0.90 per issued ordinary share of KNM.

The Proposal is subject to, inter alia, satisfactory completion of due diligence, receipt of firm financing commitments, and negotiation and execution of definitive documentation relating to the proposed transaction. Bidco is acting in collaboration with GS Capital Partners VI Fund L.P and Mettiz Capital Limited and the international adviser is Goldman Sachs (Singapore) Pte.

On 14 April 2010, the Company announced that after due deliberation, the Company and Bidco including its partners GS Capital Partners VI Fund L.P and Mettiz Capital Limited, were unable to reach an agreement on the pricing of the Proposal. Hence, the parties had mutually agreed that the Proposal made by Bidco on 4 February 2010 had lapsed.

- (2) In November 2009, Securities Commission (“SC”) has granted KNM Capital Sdn Bhd a wholly owned subsidiary of the Company a further extension up to 30 November 2010 for the proposed issuance of up to United States of America Dollar (“USD”) 350 million (or its Euro Dollar or Malaysia Ringgit equivalent) Bonds, exchangeable into new KNM Shares (“exchangeable bonds”) (“Proposed Exchangeable Bonds Issue”) which was duly approved by the Company’s shareholders and SC in April 2008 and May 2008 respectively.
- (3) On 7 April 2010, the Company announced that KNM Process Systems Sdn Bhd (“KNMPS”), a wholly-owned subsidiary of the Company had received approval for a tax incentive in respect of the acquisition of the entire equity interest in BORSIG Beteiligungsverwaltungsgesellschaft mbH (“BORSIG Acquisition”) amounting to RM1,423,200,000 from the Ministry of Finance vide the letter dated 6 April 2010. The incentive granted is a tax deduction which is claimable over 4 years commencing from the Year of Assessment 2009.

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)	126,169
Borrowings (unsecured)	63,597
ICP/IMTN	135,000
Bank Overdraft	15,611
Bill Payable	45,916
Hire Purchase	2,256
Revolving credit	196,010
	<u>584,559</u>
Long term :	
Borrowings (secured)	379,799
Borrowings (unsecured)	33,602
IMTN	150,000
Hire Purchase	9,261
	<u>572,662</u>
	<u>1,157,221</u>

The above are also inclusive of other borrowings in foreign currency of RMB33.75 million, EURO38.22 million , CAD15.14 million, USD1.8 million and BRL0.70 million.

The exchange rates used are 1 RMB = RM 0.4798, 1 EURO = RM 4.4005, 1 CAD = RM 3.21, 1 USD = RM 3.2704 and 1 BRL = RM 1.8266

B10. Financial Instruments

With the adoption of FRS 139, financial instruments are recognized on their respective contract dates. The related accounting policies are disclosed in Note A2 (d).

There are no off-balance sheet financial instruments.

The outstanding forward foreign currency exchange contracts as at 31 March 2010 are as follows:-

Type of Derivative	Contract/Notional value '000	Fair Value '000	(Gain) /Loss on Fair value changes '000
Foreign Exchange Contracts			
-Less than 1 year	193,614	200,146	(6,532)
-1 year to 3 years	76,760	75,710	1,050
- More than 3 years	-	-	-
	<u>270,374</u>	<u>275,856</u>	<u>(5,482)</u>
Cross Currency Swap			
-Less than 1 year	91,779	88,583	3,196
-1 year to 3 years	-	-	-

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- More than 3 years

-	-	-
91,779	88,583	3,196
362,153	364,439	(2,286)

Exposure to foreign currency fluctuation of underlying commitments is monitored on on-going and timely basis. The Company's objective to engage in derivative instrument contract remains to protect the transactions' underlying value.

Forward foreign exchange contracts are entered into with licensed banks to hedge the Group's exposure to foreign exchange risk in respect of its export sales and imported purchases by establishing the rate at which a foreign currency asset or liability will be settled.

These contracts are executed with credit-worthy/ reputable financial institutions and as such, credit risk and liquidity risk in respect of non-performance by counterparties to these contracts is minimal.

The fair values of the forward foreign currency exchange contracts are subject to market risk and the fair value was derived based on readily available quoted market pricing as of reporting period. The fair value of the forward contracts may change in accordance to the fluctuation of the exchange rate of the underlying currency resulting in gain or loss in fair value.

The cash requirement for these derivatives will be fulfilled by future contract proceeds on the respective maturity date.

B11. Material litigation

As at the date of this announcement, there were no material litigation since the last annual balance sheet date.

B12. Dividend payable

There was no dividend declared or recommended during quarter under review.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 March 2010	31 March 2009	31 March 2010	31 March 2009
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	40,334	98,449	40,334	98,449
Number of shares at the beginning of the period ('000)	3,946,291	3,921,805	3,946,291	3,921,805
Effect of ESOS ('000)	-	5,195	-	5,195
Effect of Share Buy Back	(3)	(2,970)	(3)	(2,970)
Weighted average number of shares ('000)	3,946,288	3,924,030	3,946,288	3,924,030
Basic earnings per share				

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(sen)	1.02	2.51	1.02	2.51
	Individual Quarter		Cumulative Quarter	
	31 March 2010	31 March 2009	31 March 2010	31 March 2009
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	40,334	98,449	40,334	98,449
Weighted average number of shares as per above ('000)	3,946,288	3,924,030	3,946,288	3,924,030
Number of shares under ESOS ('000)	-	26,786	-	26,786
Number of shares would have been issued at fair value('000)	-	(16,122)	-	(16,122)
Weighted average number of shares - diluted ('000)	3,946,288	3,934,694	3,946,288	3,934,694
Fully diluted earnings per share (sen)	N/A	2.50	N/A	2.50

There is no dilution in EPS during this quarter due to the Company's ESOS has expired.

B14. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 25 May 2010.