

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 MARCH 2011 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Year to date	
	Unaudited	Unaudited	Unaudited	Unaudited
	3 months ended	3 months ended	31.3.2011	31.3.2010
	31.3.2011	31.3.2010	RM'000	RM'000
	RM'000	RM'000		
Contract revenue	413,000	373,301	413,000	373,301
Operating profit	16,817	11,323	16,817	11,323
Financing costs	(11,510)	(12,519)	(11,510)	(12,519)
Interest income	760	1,447	760	1,447
Share of profit/(loss) of jointly controlled entities	200	(2)	200	(2)
Profit before tax	6,267	249	6,267	249
Tax expense	12,750	39,794	12,750	39,794
Net profit for the period	19,017	40,043	19,017	40,043
Other comprehensive income, net of tax				
Foreign currency translation differences	49,164	(96,262)	49,164	(96,262)
Net investment in subsidiaries	15,363	(141,719)	15,363	(141,719)
Surplus on revaluation of property, plant and equipment	-	(18)	-	(18)
Cash Flow hedge	2,423	-	2,423	-
Other comprehensive income for the period, net of tax	66,950	(237,999)	66,950	(237,999)
Total comprehensive income for the period	85,967	(197,956)	85,967	(197,956)
Attributable to:				
Equity holders of the parent	19,017	40,334	19,017	40,334
Minority interest	-	(291)	-	(291)
	19,017	40,043	19,017	40,043
Total comprehensive income attributable to:				
Equity holders of the parent	85,758	(197,426)	85,758	(197,426)
Minority interest	209	(530)	209	(530)
Total comprehensive income for the period	85,967	(197,956)	85,967	(197,956)
Earnings per share:				
- Basic (sen)	1.94	4.05	1.94	4.05

The notes set out on pages 5 to 14 form an integral part of and should be read in conjunction with this interim financial report

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2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.3.2011 RM'000	Audited As at 31.12.2010 RM'000
Assets			
Non-current assets			
Intangible Assets		640,040	620,858
Goodwill		832,313	798,974
Property, plant and equipment		755,012	748,722
Other investment, including derivative		4,256	3,620
Interest in associates		655	455
Interest in jointly-controlled entities		307	316
Deferred Tax Asset		201,613	195,946
		<u>2,434,196</u>	<u>2,368,891</u>
Current assets			
Inventories		70,887	69,063
Contracts work in progress		396,753	426,541
Trade and other receivables		390,323	363,420
Cash and cash equivalents		479,472	296,237
		<u>1,337,435</u>	<u>1,155,261</u>
TOTAL ASSETS		<u>3,771,631</u>	<u>3,524,152</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		1,001,093	1,001,093
Treasury Shares		(53,014)	(44,588)
Reserves		847,694	761,936
		<u>1,795,773</u>	<u>1,718,441</u>
Minority interest		<u>12,537</u>	<u>12,328</u>
Total Equity		<u>1,808,310</u>	<u>1,730,769</u>
Non-current liabilities			
Long term payable		25,476	25,552
Long service leave liability		1,502	1,911
Loans and borrowings	B9	476,403	380,493
Deferred taxation		266,863	265,928
		<u>770,244</u>	<u>673,884</u>
Current liabilities			
Payables and accruals		363,378	389,574
Customers advance for contract work in progress		283,610	57,346
Loans and borrowings	B9	537,724	664,641
Current tax liabilities		8,365	7,938
		<u>1,193,077</u>	<u>1,119,499</u>
Total liabilities		<u>1,963,321</u>	<u>1,793,383</u>
TOTAL EQUITY AND LIABILITIES		<u>3,771,631</u>	<u>3,524,152</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.79</u>	<u>1.72</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 MARCH 2011

			← 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	Non-Distributable		(Accumulated Loss) / Retained Profit RM'000	Total RM'000			
				Hedging Reserve RM'000	AFS Reserve RM'000	Revaluation and Other Reserve RM'000				
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 in subsidiaries	-	-	-	-	-	-	-	-	91	91
Issue of shares pursuant to: - ESOS	-	-	-	-	-	-	-	0	-	0
Share Buy Back	-	(8)	-	-	-	-	-	(8)	-	(8)
Transfer to share premium for share options exercised	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-
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
As at 1 January 2011	1,001,093	(44,588)	319,426	(1,513)	30	(486,835)	930,828	1,718,441	12,328	1,730,769
Total comprehensive income for the period	-	-	-	2,423	-	64,318	19,017	85,758	209	85,967
Transaction with owners in their capacity as owner										
Acquisition of equity interest in subsidiary										-
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	-
Share Buy Back	-	(8,426)	-	-	-	-	-	(8,426)	-	(8,426)
Dividend								-	-	-
As at 31 MARCH 2011 (Unaudited)	1,001,093	(53,014)	319,426	910	30	(422,517)	949,845	1,795,773	12,537	1,808,310

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2011

	31.3.2011	31.3.2010
	RM	RM
	'000	'000
	Unaudited	Unaudited
Net cash generated from operating activities	249,226	53,576
Net cash used in investing activities	(15,388)	(19,065)
Net cash used in financing activities	(48,944)	(107,235)
Net increase/ (decrease) in cash and cash equivalents	184,894	(72,724)
Cash and cash equivalents at beginning of year	286,532	553,783
Cash and cash equivalents at end of period	471,426	481,059
Cash & bank balances	311,697	258,692
Deposits with financial institutions	45	129,126
Deposits with licensed banks	167,730	108,852
	479,472	496,670
Bank overdraft	(8,046)	(15,611)
	471,426	481,059

The notes set out on pages 5 to 14 form an integral part of and should be read in conjunction with this interim financial report

Notes to the quarterly Interim Financial Report – 31 March 2011

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 2010. 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 2010.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2011.

On 1 January 2011, the Group adopted the following FRSs:-

FRSs, Amendments to FRSs and Interpretations	
FRS 3	Business Combination (Revised)
FRS 127	Consolidated and Separate Financial Statements (revised)
Amendment to FRS 132	Financial Instruments: Presentation-Classification of Rights Issues
Amendments to FRS 7	Financial Instruments : Disclosure-Improving Disclosures about Financial Instruments
Amendment to FRS 138	Intangible Assets
Improvements to FRSs (2010)	
IC Interpretation 4	Determining whether an Arrangement contains a Lease
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners
IC Interpretation 18	Transfers of Assets from Customers
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives

FRS 1 (revised), Amendment to FRS 1 First time Adoption of Financial Reporting standard, Amendment to FRS 2 Share-based Payment, Amendment to FRS 5 Non-current asset held for sale and discontinued operations and IC Interpretation 12 Service Concession Agreement will also be effective for annual period beginning on or after 1 July 2010 and 1 January 2011. These standards and IC Interpretations, are, however, not applicable to the Group.

Adoption of the above FRSs, Amendments to FRSs and IC Interpretations did not have any effect on the financial performance, position or presentation of financials of the Group, other than the disclosures under the Amendments to FRS 7 which will affect the 2011 annual financial statements.

FRS, IC Interpretations and Amendments to IC Interpretation issued but not yet effective

At the date of authorization of these interim financial statements, the following FRS, IC Interpretations and Amendments to IC Interpretation were issued but not yet effective and have not been applied by the Group:

FRS,IC Interpretation and Amendments to IC Interpretation		Effective for annual periods beginning on or after
FRS124	Related Party Disclosure (revised)	1 January 2012
IC Interpretation 19	Extinguishing Liabilities with Instruments	1 July 2011

Amendment to IC Interpretation 14, Prepayments of a Minimum Funding Requirement and IC Interpretation 15, Agreements for the Construction of Real Estate will also be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012. These IC Interpretations, are, however, not applicable to the Group.

A3. Qualification of annual financial statements

There were no audit qualification on the annual financial statements of the Group for the year ended 31 December 2010.

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.

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 2011	265,000
ICP/IMTN Drawdown/(Repayment)	<u>(50,000)</u>
Balance of ICP/IMTN outstanding as at 31 March 2011	<u><u>215,000</u></u>

As at 31 March 2011, the amount outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) is RM215.0 million out of the limit of RM265.0 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 22,991,275 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM2.31 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

An interim ordinary dividend of 3 sen per share tax exempt totaling RM29,343,040 in respect of the financial year ended 31 December 2010 was paid on 19 April 2011.

A9. Segment information

Segmental analysis of the revenue and result:-

Geographical segments:	Revenue 3 months ended 31.3.2011 RM'000	Gross Profit 3 months ended 31.3.2011 RM'000	EBITDA 3 months ended 31.3.2011 RM'000
Asia & Oceania	171,183	30,018	18,559
Europe	222,406	44,405	24,898
Americas	19,411	694	<u>(3,567)</u>
Total	<u><u>413,000</u></u>	<u><u>75,117</u></u>	<u><u>39,890</u></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.

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 except as follows:-

- (1) On 7 February 2011, KNM Europa BV, an effective wholly-owned subsidiary of the Company had incorporated and subscribed for 10,000 ordinary shares of GBP1.00 each in KNM Project Services Limited (“KPSL”), representing 100% equity interest in KPSL for a total cash consideration of GBP10,000 (approximately RM49,100 based on the exchange rate of GBP1 : RM4.91).
- (2) On 11 April 2011, KNM Process Systems Sdn Bhd (“KNMPS”) had invested and subscribed for 800 ordinary shares of RM1.00 each in KNM Ogpel (Sabah) Sdn Bhd (“KNMOS”), representing 80% equity interest in KNMOS for a total cash consideration of RM800.
- (3) On 11 April 2011, Borsig Industrial Services Sdn Bhd (“BIS”) had invested and subscribed for 40,000 ordinary shares of RM1.00 each in Dimensi Bumijaya Sdn Bhd (“DBSB”), representing 40% equity interest in DBSB for a total cash consideration of RM40,000.

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	7,943	79,628
Investment	3,699	11,128
	<u>11,642</u>	<u>90,756</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	437
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	3,176
IMT O&G Solutions Sdn Bhd (c)	
-Supply of production materials and fixed assets	-
Tofield Realty Development Corporation (d)	
- General and civil contractor and provider of staff accomodation	104
Nassir Hazza (e)	
- General construction, civil and related mechanical and engineering work	1,129
KPS Technology & Engineering LLC(f)	
-Provision/Receipt of mechanical and engineering, general administrative and other support services	717
-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 RM413.00 million, profit after tax and minority interest of RM19.02 million and EBITDA (Earning Before Interest, Tax, Depreciation and Amortisation) of RM39.89 million for the period ended 31 March 2011. Compared to the previous year, the higher performance for revenue and EBITDA in this year was due to higher revenue recognised and higher contribution margins, whereas profit after tax and minority interest in this year was lower due to lesser deferred taxation impact.

B2. Variation of results against preceding quarter

The Group's revenue of RM413.00 million and net profit before taxation and minority interest of RM6.27 million for the first quarter ended 31 March 2011 were higher by RM28.77 million and RM9.36 million compared to fourth quarter's revenue of RM384.23 million and net loss before taxation and minority interest of RM3.09 million respectively. The higher revenue and profit for this quarter are mainly due to higher revenue recognized.

B3. Current year prospects

The Board is confident that the Group's results for the year 2011 will continue to be profitable.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months ended 31.3.2011 RM'000	3 months ended 31.3.2010 RM'000
Income Tax expense :-		
Current	5,013	6,706
Prior period	(2)	470
Deferred tax	(17,761)	(46,970)
	<u>(12,750)</u>	<u>(39,794)</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) The Proposal by KNM Capital Sdn Bhd a wholly owned subsidiary of the Company on the 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 Securities Commission (“SC”) with validity up to 30 May 2011 and remain unissued as of to-date.
- (2) On 22 October 2010, the Company announced that Securities Commission (“SC”) vide their letter dated 21 October 2010 has approved the Company’s proposed issue of Sukuk Programmes of up to RM1,500 million comprising of Islamic Commercial Paper Programme of up to RM400 million (“ICP Programme”) and Islamic Medium Term Note Programme of up to RM1,100 million (“IMTN Programmes”).

The ICP Programme has a tenure of up to 7 (seven) years and the IMTN Programme has a tenure of up to 15 (fifteen) years from the date of the first issuance under the Sukuk Programmes. No commercial papers or medium term notes have been issued as at to-date.

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)	57,194
Borrowings (unsecured)	53,609
ICP/IMTN	115,000
Bank Overdraft	8,046
Bill Payable	69,704
Hire Purchase	6,448
Revolving credit	227,723
	<u>537,724</u>

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Long term :

Borrowings (secured)	321,112
Borrowings (unsecured)	37,605
IMTN	100,000
Hire Purchase	17,686
	<u>476,403</u>
	<u>1,014,127</u>

The above are also inclusive of other borrowings in foreign currency of RMB20.00 million, EURO39.41 million , CAD12.48 million, USD1.80 million and BRL4.57 million.

The exchange rates used are 1 RMB = RM 0.4624, 1 EURO = RM 4.2699, 1 CAD = RM 3.115, 1 USD = RM 3.0285 and 1 BRL = RM 1.8431

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 2011 are as follows:-

Type of Derivative	Contract/Notional value RM'000	(Gain) /Loss on Fair value changes RM'000
Foreign Exchange Contracts		
-Less than 1 year	274,134	(3,009)
-1 year to 3 years	343,054	(8,800)
- More than 3 years	-	-
	<u>617,188</u>	<u>(11,809)</u>

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 import 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. Realised and Unrealised Profit/Losses Disclosure

	As at 31 March 2011	As at 31 December 2010
	RM'000	RM'000
Total retained profit/(accumulated losses) of KNM Group and its subsidiaries		
- Realised	559,891	577,871
- Unrealised	(55,093)	(89,639)
Total share of retained profit / (accumulated losses) from associated companies:		
- Realised	449	245
- Unrealised	-	-
Total share of retained profit/(accumulated losses) from jointly controlled entities:		
- Realised	(484)	(579)
- Unrealised	23	66
Less: Consolidation adjustments	445,059	442,864
Total Group retained profits/(accumulated losses) as per consolidated accounts	949,845	930,828

B12. Material litigation

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

B13. Dividend payable

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

B14. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	19,017	40,334	19,017	40,334
Number of shares at the beginning of the period ('000)	1,001,093	4,004,370	1,001,093	4,004,370
Effect of share consolidation	-	(2,950,228)	-	(2,950,228)
Effect of ESOS ('000)	-	-	-	-
Effect of Share Buy Back	(20,694)	(58,082)	(20,694)	(58,082)
Weighted average number of shares ('000)	980,399	996,060	980,399	996,060
Basic earnings per share (sen)	1.94	4.05	1.94	4.05

B15. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 26 May 2011.