

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2012 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Year to date	
	Unaudited 3 months ended 30.6.2012 RM'000	Unaudited 3 months ended 30.6.2011 RM'000	Unaudited 30.6.2012 RM'000	Unaudited 30.6.2011 RM'000
Contract revenue	586,698	544,300	1,172,527	957,300
Operating profit	34,742	14,794	63,025	31,611
Financing costs	(13,130)	(14,402)	(26,022)	(25,912)
Interest income	142	1,123	1,114	1,883
Share of (loss)/profit of equity accounted investees, net of tax	(10)	293	(408)	493
Profit before tax	21,744	1,808	37,709	8,075
Tax expense	12,398	8,140	31,762	20,890
Net profit for the period	34,142	9,948	69,471	28,965
Other comprehensive (loss)/ income, net of tax				
Foreign currency translation differences	(12,744)	39,114	(11,738)	88,278
Net investment in subsidiaries	4,934	13,013	(25,016)	28,376
Impairment of property, plant and equipment through Revaluation Reserve	-	-	-	-
Cash Flow hedge	(4,102)	865	3,083	3,288
Share of other comprehensive income of equity accounted investee	198	-	283	-
Other comprehensive (loss)/ income for the period, net of tax	(11,714)	52,992	(33,388)	119,942
Total comprehensive income for the period	22,428	62,940	36,083	148,907
Attributable to:				
Equity holders of the parent	33,842	10,855	68,894	29,872
Minority interest	300	(907)	577	(907)
	34,142	9,948	69,471	28,965
Total comprehensive income attributable to:				
Equity holders of the parent	22,131	63,688	35,579	149,446
Minority interest	297	(748)	504	(539)
Total comprehensive income for the period	22,428	62,940	36,083	148,907
Earnings per share:				
- Basic (sen)	3.46	1.11	7.05	3.05

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2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 30.6.2012	Audited As at 31.12.2011
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets		567,351	594,641
Goodwill		779,673	798,507
Property, plant and equipment		731,966	744,824
Other investment, including derivative		14,092	14,088
Investments in associates		42	45
Investments in jointly-controlled entities		7,284	5,882
Deferred Tax Asset		327,694	279,922
		<u>2,428,102</u>	<u>2,437,909</u>
Current assets			
Inventories		75,560	72,120
Contracts work in progress		622,990	450,390
Trade and other receivables		518,504	555,021
Cash and cash equivalents		176,573	416,429
		<u>1,393,627</u>	<u>1,493,960</u>
TOTAL ASSETS		<u>3,821,729</u>	<u>3,931,869</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		1,001,093	1,001,093
Treasury Shares		(53,380)	(53,371)
Reserves		692,912	657,333
		<u>1,640,625</u>	<u>1,605,055</u>
Non-controlling interests		<u>7,526</u>	<u>7,021</u>
Total Equity		<u>1,648,151</u>	<u>1,612,076</u>
Non-current liabilities			
Long term payable		21,417	20,702
Long service leave liability		1,783	2,366
Loans and borrowings	B9	263,478	366,390
Deferred taxation		236,613	238,042
		<u>523,291</u>	<u>627,500</u>
Current liabilities			
Payables and accruals		541,843	518,164
Deferred income		328,596	390,160
Loans and borrowings	B9	773,576	777,894
Current tax liabilities		6,272	6,075
		<u>1,650,287</u>	<u>1,692,293</u>
Total liabilities		<u>2,173,578</u>	<u>2,319,793</u>
TOTAL EQUITY AND LIABILITIES		<u>3,821,729</u>	<u>3,931,869</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.64</u>	<u>1.60</u>

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

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
ENDED 30 JUNE 2012**

			← Attributable to equity holders of the parent Non-Distributable →				→ 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	Retained Profit RM'000	Total RM'000		
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	-	-	-	3,288	-	116,286	29,872	149,446	(539)	148,907
Transaction with owners in their capacity as owner										
Increase in share capital in subsidiaries	-	-	-	-	-	-	-	-	-	-
Issue of shares pursuant to: - ESOS	-	-	-	-	-	-	-	-	-	-
Share Buy Back	-	(8,426)	-	-	-	-	-	(8,426)	-	(8,426)
Transfer to share premium for share options exercised	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(29,343)	(29,343)	-	(29,343)
As at 30 JUNE 2011 (Unaudited)	1,001,093	(53,014)	319,426	1,775	30	(370,549)	931,357	1,830,118	11,789	1,841,907
As at 1 January 2012	1,001,093	(53,371)	319,426	(5,172)	30	(466,670)	809,719	1,605,055	7,021	1,612,076
Total comprehensive (loss)/ income for the period	-	-	-	3,083	-	(36,398)	68,894	35,579	504	36,083
Transaction with owners in their capacity as owner										
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	-	-	1	1
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	-
Share Buy Back	-	(9)	-	-	-	-	-	(9)	-	(9)
Dividend	-	-	-	-	-	-	-	-	-	-
As at 30 JUNE 2012 (Unaudited)	1,001,093	(53,380)	319,426	(2,089)	30	(503,068)	878,613	1,640,625	7,526	1,648,151

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KNM GROUP BERHAD

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED**30 JUNE 2012****(Unaudited)**

	30.6.2012	30.6.2011
	RM	RM
	'000	'000
Cash flows from operating activities		
Profit before tax	37,709	8,075
Adjustments for:		
Amortisation of intangible assets	16,434	16,643
Depreciation	3,264	3,631
Interest expense	24,990	24,355
Interest income	(1,114)	(1,883)
Gain on foreign exchange-unrealised	(3,532)	(5,258)
Loss/(Gain) on disposal of property, plant and equipment	22	(26)
Share of (profit)/ loss of in associates and jointly-controlled entities	408	(493)
Change in fair value of forward contract	1,871	8,360
Provision for foreseeable losses	(28,472)	(2,075)
Goodwill written off	-	-
Operating profit before working capital changes	<u>51,580</u>	<u>51,329</u>
(Increase)/Decrease in working capital:		
Inventories	(3,440)	(1,253)
Receivables, deposits and prepayments	(67,082)	(113,041)
Payables and accruals and long service leave liability	(33,043)	345,317
Cash used in operations		
Income taxes paid	(22,475)	3,073
Interest paid	(1,465)	(86)
Interest received	1,114	1,883
Net cash used / generated from operating activities	<u>(74,811)</u>	<u>287,222</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(30,158)	(33,217)
Acquisition of minority interest	1	-
Acquisition of investment in Joint-controlled entity	(1,680)	-
Acquisition of other intangible assets	(3,892)	(186)
Proceeds from disposal of property, plant and equipment	1,447	330
Net cash used in investing activities	<u>(34,282)</u>	<u>(33,073)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	-	-
Share buy back	(9)	(8,426)
Net (repayment)/proceeds from bill payable	(57,827)	30,954
(Repayment)/ Proceeds of hire purchase liabilities	(2,463)	3,523
Net (repayment)/proceeds from term loan	(46,408)	6,856
Net proceeds/(repayment) to ICP/IMTN	-	(50,000)
Interest expenses	(23,525)	(24,270)
Dividend paid	-	(29,343)
Dividend paid to minority interest	-	-
Net cash used in financing activities	<u>(130,232)</u>	<u>(70,706)</u>
Net (decrease)/ increase in cash and cash equivalents	(239,325)	183,443
Cash and cash equivalents at beginning of period	399,167	286,532
Cash and cash equivalents at end of period	<u>159,842</u>	<u>469,975</u>
Cash & bank balances	144,996	290,100
Deposits with financial institutions	-	189
Deposits with licensed banks	<u>31,577</u>	<u>179,686</u>
	176,573	469,975
Bank overdraft	<u>(16,731)</u>	<u>-</u>
	<u>159,842</u>	<u>469,975</u>

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

Notes to the quarterly Interim Financial Report – 30 June 2012

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 MFRS 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 2011. These explanatory notes attached to the interim financial statements provide explanation of events and transactions that are significant for the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2011.

The Group has adopted the Malaysian Financial Reporting Standard (MFRS) framework and MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards for the first time in these condensed interim financial statements. The transition to MFRS framework does not have any material financial impact to the financial statements of the Group.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011.

The following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group:-

		Effective for annual periods beginning on or after
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosures of Interest in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits (as amended in June 2011)	1 January 2013
MFRS 127	Separate Financial Statements (as amended by IASB in May 2011)	1 January 2013
MFRS 128	Investment in Associates and Joint Ventures (as amended by IASB in May 2011)	1 January 2013
Amendments to MFRS 7	Disclosures- Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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 2011.

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:

	RM'000
Opening Balance of ICP/IMTN outstanding as at 1 January 2012	190,000
ICP/IMTN Drawdown/(Repayment)	-
Balance of ICP/IMTN outstanding as at 30 June 2012	<u>190,000</u>

As at 30 June 2012, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") is RM190.0 million out of the limit of RM190.0 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 23,251,275 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM2.30 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.

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A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Geographical segments:

	Revenue 6 months ended 30.6.2012 RM'000	Gross Profit 6 months ended 30.6.2012 RM'000	EBITDA 6 months ended 30.6.2012 RM'000
Asia & Oceania	447,824	63,870	28,807
Europe	676,717	131,697	95,680
Americas	47,986	4,161	(14,597)
Total	1,172,527	199,728	109,890

	Revenue 6 months ended 30.6.2011 RM'000	Gross Profit 6 months ended 30.6.2011 RM'000	EBITDA 6 months ended 30.6.2011 RM'000
Asia & Oceania	396,975	47,182	27,584
Europe	520,709	96,732	58,267
Americas	39,616	3,960	(8,000)
Total	957,300	147,874	77,851

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 26 January 2012, KNM Project Services Limited (“KPSL”), an effective wholly-owned subsidiary of the Company had completed the transfer of 310 shares of GBP1.00 each (representing 31% equity interest) in Energy Park Investments Limited (“EPIL”) for a total cash consideration of GBP310.00 (approximately RM1,488.00) from Peterborough Renewable Energy Limited (“PREL”) (the “Investment”). Pursuant to the completion of this transfer, EPIL has now become a new 80% subsidiary of KPSL. The total cost of investment is GBP800.00 (approximately RM3,840.00).

(2) On 14 March 2012, KNM Europa BV, a wholly-owned subsidiary of the Company had incorporated KNM Technical Services (“KNMETS”), representing 100% equity interest in KNMETS for a total investment sum of USD1,500.00 (approximately RM4,662.25).

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	53,715	48,008
Investment	108,018	10,047
	161,733	58,055

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	1,050
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	4,208
IMT O&G Solutions Sdn Bhd (c)	
-Supply of production materials and fixed assets	10
Tofield Realty Development Corporation (d)	
- General and civil contractor and provider of staff accommodation	251
Nassir Hazza (e)	
- General construction, civil and related mechanical and engineering work	-
KPS Technology & Engineering LLC(f)	
-Provision/Receipt of mechanical and engineering, general administrative and other support services	101
-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 RM1.17 billion, EBITDA (Earning Before Interest, Tax, Depreciation and Amortisation) of RM109.89 million and profit after tax and minority interest of RM68.89 million for the period ended 30 June 2012. Compared to the previous year, the higher revenue, EBITDA and profit after tax and minority interest in this year was due to higher job recognition on stronger order book and better contribution margin from projects.

Asia & Oceanic Segment

This segment saw improvement on contribution from higher margin projects' progress. Market competition on conventional low end process equipment in 2012 eased with higher order secured.

Europe Segment

Europe continue to operate with the strong order book from last year complimented with new orders secured in the current year. Profitability improved on higher project revenue recognition and better contribution margin.

Americas Segment

South America operations continue to weigh down on the Americas performance, extending losses on the back of slowdown of order book as compared to the previous year. However, North America continue to contribute positively on progress of Canadian oil sands projects.

B2. Variation of results against preceding quarter

The Group's revenue of RM586.70 million was higher by RM0.87 million as compared to first quarter's revenue of RM585.83 million. The Profit before taxation and minority interest of RM21.74 million is improved by RM5.78 million as compared to first quarter profit before taxation and minority interest of RM15.96 million. The improved results for quarter under review are mainly due to improved project contribution margin.

B3. Current year prospects

Our Asia & Oceanic segment has recorded slightly better order intake for the first 2 quarters which would help improve capacity utilization and contribute positively into the remaining quarters of the current financial year.

Existing strong order book will sustain the European segment to remain profitable for the remaining 2 quarters.

The business performance for Americas segment remain challenging.

The Board is of the opinion that the financial performance of the Group will remain positive.

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B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 30.6.2012 RM'000	3 months Ended 30.6.2011 RM'000	6 months Ended 30.6.2012 RM'000	6 months Ended 30.6.2011 RM'000
Income Tax expense :-				
Current	8,791	3,559	10,718	8,572
Prior period	(6)	(528)	11	(530)
Deferred tax	(21,183)	(11,171)	(42,491)	(28,932)
	<u>(12,398)</u>	<u>(8,140)</u>	<u>(31,762)</u>	<u>(20,890)</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 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”).

Subsequently, on 1 August 2012, the Company announced that it has obtained approval from SC vide their letter dated 27 July 2012 to have its long-term rating for the IMTN Programme revised from AA-ID to A+ID; whilst its short term rating for the ICP Programme remains unchanged at MARC-1ID (“SC Revision Approval”). Except for the above long-term rating revision, all other terms remain unchanged.

The ICP Programme shall have a tenure of up to 7 (seven) years and the IMTN Programme shall have 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.

- (2) On 25 July 2011, KNM and Zecon Berhad (“Zecon”) had entered into the following Heads of Agreements (“HOAs”) with Gulf Asian Petroleum Sdn Bhd (“GAP”) towards inter alia the following:-
- a. to undertake the Engineering, Procurement, Construction and Commissioning (“EPC”) Contract for the 150,000/200,000 bpd Petroleum Refinery and 400,000/525,000 mtpa Polypropylene Unit for GAP (“the Refinery/Polypropylene Project”) with a total Project Value of USD5.0 billion (equivalent to about RM15.0 billion based on the exchange rate of USD1.00 : RM3.00); and
 - b. to undertake the Engineering, Procurement, Construction and Commissioning (“EPC”) Contract for the Petroleum Product Storage Terminal Facility comprising 4 Terminals with a total storage capacity of 2.328 million cubic meters, complete with supporting infrastructure and auxiliaries including the jetty (“the Storage Project”) with a total Contract Value of RM2.0 billion.

Both the Refinery/ Polypropylene Project and Storage Project are located at Teluk Ramunia, Johor.

As at to-date, the Parties to the Heads of Agreements have yet to achieve financial close for the Refinery/Polypropylene Project and the Storage Project and the completion of the HOA is subject to conditions as stipulated in the company’s announcements dated 25 July and 26 July 2011.

- (3) KNM’s wholly-owned subsidiary, KMK Power Sdn Bhd (“KMK”) had on 25 January 2012 entered into an Exclusivity Agreement (“Agreement”) with Poplar Holdings Limited for the grant of exclusivity by PHL to KMK to conclude the proposed purchase of the entire issued share capital of Poplar Investments Limited (“Sale Shares”) for GBP25 million (approximately RM120 million) (“Proposed Acquisition”).

The exclusivity period shall commence from 25 January 2012 until and including 25 April 2012 unless extended by mutual agreement of KMK and PHL in order to complete the Proposed Acquisition (“Exclusivity Period”). In consideration of PHL granting the Exclusivity Period, KMK has paid the sum of GBP500,000 (approximately RM2.4 million) upon signing of the Agreement. The Exclusivity Fee shall form part of the purchase price in respect of the Proposed Acquisition, if parties are able to come to terms in respect of the same.

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Pursuant to the Exclusivity Agreement dated 25 January 2012, KNM Group Berhad's wholly owned subsidiary, KMK Power Sdn Bhd ("KMK"), had entered into an Agreement for Sale and Purchase of Shares ("SPA") with Poplar Holdings Limited ("PHL") on 8 February 2012 for the acquisition of one (1) ordinary share of GBP1.00 ("Sale Shares") representing 100% equity interest in Poplar Investments Limited ("PIL") for a total cash consideration of GBP25 million only [which amount is adjustable pending determination of the Net Assets Value of PIL at Completion].

On 14 August 2012, KMK has obtained a further extension to complete the Proposed Acquisition by 31 October 2012.

- (4) Pursuant to the Company's announcements on 30 April 2012, 21 June 2012, 31 July 2012 and 1 August 2012, KNM is proposing to undertake the following:-
- (a) a renounceable two-call rights issue of 488,920,659 new ordinary shares of RM1.00 each in KNM ("KNM Shares") ("Rights Shares") at an indicative issue price of RM1.00 for each Rights Share on the basis of one (1) Rights Share for every two (2) existing KNM Shares held as at an entitlement date to be determined later together with up to 488,920,659 free detachable warrants ("Warrants") on the basis of one (1) Warrant for every one (1) Rights Share subscribed for ("Proposed Rights Issue"). The indicative First Call price of RM0.40 per Rights Share will be payable in full in cash upon application. The indicative Second Call of RM0.60 per Rights Share will be capitalized from the Company's share premium reserve.
 - (b) an increase in the authorised share capital of the Company from RM1,250,000,000 comprising of 1,250,000,000 KNM Shares to RM2,250,000,000 comprising of 2,250,000,000 KNM Shares ("Proposed Increase In Authorised Share Capital"); and
 - (c) amendments to the Memorandum and Articles of Association of the Company ("Proposed Amendments").

The Proposed Rights Issue, Proposed Increase In Authorised Share Capital and Proposed Amendments are collectively referred to as the "Proposals".

The Company has submitted the following applications for approvals:-

- a. an application to Bank Negara Malaysia on 1 August 2012 to seek its approval for the issuance of the Warrants to non-residents; and
- b. the listing application to Bursa Malaysia Securities Berhad ("Bursa Securities") on 31 July 2012 for the following:-
 - (1) admission of 488,920,659 Warrants to the Official List of Bursa Securities; and
 - (2) listing of and quotation for the following on the Main Market of Bursa Securities:-
 - (i) 488,920,659 Rights Shares;
 - (ii) 488,920,659 Warrants; and
 - (iii) 488,920,659 new KNM Shares to be issued upon exercise of the Warrants.

KNM had since obtained BNM's approval per BNM's letter dated 10 August 2012 and Bursa Securities' approval vide Bursa Securities' letter dated 14 August 2012. However, the Proposals are still pending the approval from KNM's shareholders to be obtained at an Extraordinary General Meeting to be convened in due course.

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)	104,617
Borrowings (unsecured)	37,012
ICP/IMTN	190,000
Bank Overdraft	16,731
Bill Payable	200,197
Hire Purchase	5,165
Revolving credit	219,854
	<u>773,576</u>
Long term :	
Borrowings (secured)	216,927
Borrowings (unsecured)	35,076
IMTN	-
Hire Purchase	11,475
	<u>263,478</u>
	<u>1,037,054</u>

The above are also inclusive of other borrowings in foreign currency of RMB27.00 million, EURO41.47million, CAD3.6 million, and BRL7.45 million.

The exchange rates used are 1 RMB = RM 0.499, 1 EURO = RM 4.0139, 1 CAD = RM 3.1186, and 1 BRL = RM 1.5778

B10. Financial Instruments

With the adoption of FRS 139, financial instruments are recognized on their respective contract dates.

There are no off-balance sheet financial instruments.

The outstanding forward foreign currency exchange contracts as at 30 June 2012 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	475,321	(98)
-1 year to 3 years	149,872	(789)
- More than 3 years	-	-
	<u>625,193</u>	<u>(887)</u>

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Exposure to foreign currency fluctuation of underlying commitments is monitored on on-going and timely basis. The Company's objective to incept derivative instrument contract is mainly to hedge against foreign exchange exposure on transactions in currencies other than its own.

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, import purchases and other obligations by establishing the basis 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 values were derived from marking to available market quoted price as of the 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 and other proceeds on the respective maturity date.

B11. PROFIT FOR THE PERIOD

	3 Months ended 30.6.2012 RM'000	3 Months ended 30.6.2011 RM'000	6 Months ended 30.6.2012 RM'000	6Months ended 30.6.2011 RM'000
(a)				
Profit for the period is arrived at after charging and crediting:				
Allowance /(Reversal) for impairment loss on doubtful debt	3,541	136	(4,819)	1,060
Net (Gain)/Loss on foreign exchange	871	(14,607)	(3,918)	(24,525)
Net Loss/(Gain) on derivative	(2,492)	9,789	1,871	8,360
Provision /(Reversal) for foreseeable losses	(623)	(4,848)	(28,472)*	(2,075)
Impairment of asset	-	-	-	-
Amortisation of intangible Asset	8,360	8,493	16,434	16,643
Provision for/(Reversal) warranty	(252)	(972)	(250)	(1,074)
Interest income	142	1,123	1,114	1,883
Late delivery charges	(113)	-	(113)	-
(b)				
Interest Expenses	13,130	14,402	26,022	25,912
(c)				
Depreciation charge for the period:				
Income statement	1,627	1,708	3,264	3,631
Construction work in progress	13,699	12,965	27,167	25,965
	<u>15,326</u>	<u>14,673</u>	<u>30,431</u>	<u>29,596</u>

*This has been corrected to include a typographical error in Q1 2012 announcement.

B12. Realised and Unrealised Profit/Losses Disclosure

	As at 30 June 2012	As at 31 December 2011
	RM'000	RM'000
Total retained profit of KNM Group and its subsidiaries		
- Realised	323,168	323,759
- Unrealised	67,662	52,679
Total share of retained profit / (accumulated losses) from associated companies:		
- Realised	(3,303)	(293)
- Unrealised	(26)	(110)
Total share of retained profit/(accumulated losses) from jointly controlled entities:		
- Realised	(1,319)	(1,126)
- Unrealised	(661)	573
Less: Consolidation adjustments	493,092	434,237
Total Group retained profits as per consolidated accounts	878,613	809,719

B13. Material litigation

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

B14. Dividend payable

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

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B15. Earnings per share

	Individual Quarter		Cumulative Quarter	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	33,842	10,855	68,894	29,872
Number of shares at the beginning of the period ('000)	1,001,093	1,001,093	1,001,093	1,001,093
Effect of share consolidation	-	-	-	-
Effect of ESOS ('000)	-	-	-	-
Effect of Share Buy Back	(23,248)	(21,849)	(23,248)	(21,849)
Weighted average number of shares ('000)	977,845	979,244	977,845	979,244
Basic earnings per share (sen)	3.46	1.11	7.05	3.05

B16. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 16 August 2012.