

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Year to date	
	Unaudited 3 months ended 31.12.2012 RM'000	Unaudited 3 months ended 31.12.2011 RM'000	Unaudited 31.12.2012 RM'000	Unaudited 31.12.2011 RM'000
Contract revenue	590,240	561,293	2,372,264	1,963,778
Operating profit /(loss)	28,682	(5,195)	126,542	(106,844)
Financing costs	(20,513)	(13,222)	(59,615)	(52,190)
Interest income	792	802	2,226	3,632
Share of loss of equity accounted investees, net of tax	(500)	(1,400)	(104)	(480)
Profit/(Loss) before tax	8,461	(19,015)	69,049	(155,882)
Tax expense	8,993	12,268	59,614	62,100
Net profit/(loss) for the period/year	17,454	(6,747)	128,663	(93,782)
Other comprehensive (loss)/ income, net of tax				
Foreign currency translation differences	23,996	(44,145)	(8,239)	9,174
Net investment in subsidiaries	19,244	(26,833)	(45,423)	13,232
Impairment of property, plant and equipment through Revaluation Reserve	-	-	-	(4,353)
Cash Flow hedge	825	(7,985)	5,228	(3,659)
Share of other comprehensive (loss)/ income of equity accounted investee	(7)	(22)	(117)	157
Other comprehensive income/(loss) for the period/year, net of tax	44,058	(78,985)	(48,551)	14,551
Total comprehensive income/(loss) for the period/year	61,512	(85,732)	80,112	(79,231)
Attributable to:				
Equity holders of the parent	17,591	(5,342)	130,602	(91,766)
Minority interest	(137)	(1,405)	(1,939)	(2,016)
	17,454	(6,747)	128,663	(93,782)
Total comprehensive income attributable to:				
Equity holders of the parent	61,474	(83,858)	82,897	(75,260)
Minority interest	38	(1,874)	(2,785)	(3,971)
Total comprehensive income/(loss) for the period/year	61,512	(85,732)	80,112	(79,231)
Earnings per share:				
- Basic (sen)	1.69	(0.55)	12.58	(9.38)

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2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.12.2012 RM'000	Unaudited As at 31.12.2011 Restated RM'000	Unaudited As at 1.1.2011 Restated RM'000
Assets				
Non-current assets				
Intangible Assets		559,670	594,641	620,858
Goodwill		772,875	787,883	788,350
Property, plant and equipment		865,195	761,887	765,785
Other investment, including derivative		12,694	14,088	3,620
Investments in associates		40	45	455
Investments in jointly-controlled entities		7,435	5,882	316
Deferred Tax Asset		362,750	279,922	195,946
		<u>2,580,659</u>	<u>2,444,348</u>	<u>2,375,330</u>
Current assets				
Inventories		71,818	72,120	69,063
Contracts work in progress		497,090	450,390	395,151
Trade and other receivables		565,200	555,021	394,810
Cash and cash equivalents		188,426	416,429	296,237
		<u>1,322,534</u>	<u>1,493,960</u>	<u>1,155,261</u>
TOTAL ASSETS		<u>3,903,193</u>	<u>3,938,308</u>	<u>3,530,591</u>
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		1,475,346	1,001,093	1,001,093
Treasury Shares		(53,385)	(53,371)	(44,588)
Reserves		457,275	661,976	766,579
		<u>1,879,236</u>	<u>1,609,698</u>	<u>1,723,084</u>
Non-controlling interests		<u>4,237</u>	<u>7,021</u>	<u>12,328</u>
Total Equity		<u>1,883,473</u>	<u>1,616,719</u>	<u>1,735,412</u>
Non-current liabilities				
Long term payable		21,419	20,702	25,552
Long service leave liability		2,799	2,366	1,911
Loans and borrowings	B9	302,644	366,390	380,493
Deferred taxation		227,053	239,838	267,724
		<u>553,915</u>	<u>629,296</u>	<u>675,680</u>
Current liabilities				
Payables and accruals		592,329	518,164	389,574
Deferred income		236,201	390,160	57,346
Loans and borrowings	B9	630,976	777,894	664,641
Current tax liabilities		6,299	6,075	7,938
		<u>1,465,805</u>	<u>1,692,293</u>	<u>1,119,499</u>
Total liabilities		<u>2,019,720</u>	<u>2,321,589</u>	<u>1,795,179</u>
TOTAL EQUITY AND LIABILITIES		<u>3,903,193</u>	<u>3,938,308</u>	<u>3,530,591</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.26</u>	<u>1.61</u>	<u>1.72</u>

The notes set out on pages 5 to 19 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

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 (Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
 ENDED 31 DECEMBER 2012**

	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	Warrant Reserve RM'000	Retained Profit RM'000	Total RM'000			
As at 1 January 2011											
- as previously stated	1,001,093	(44,588)	319,426	(1,513)	30	-	(486,835)	930,828	1,718,441	12,328	1,730,769
-effects of MFRS adoption							15,267	(10,624)	4,643		4,643
At 1 January 2011, as restated	1,001,093	(44,588)	319,426	(1,513)	30	-	(471,568)	920,204	1,723,084	12,328	1,735,412
Total comprehensive (loss)/ income for the year	-	-	-	(3,659)	-	-	20,165	(91,766)	(75,260)	(3,971)	(79,231)
Transaction with owners in their capacity as owner											
Increase in share capital in subsidiaries	-	-	-	-	-	-	-	-	-	(1,336)	(1,336)
Issue of shares pursuant to: - ESOS	-	-	-	-	-	-	-	-	-	-	-
Share Buy Back	-	(8,783)	-	-	-	-	-	-	(8,783)	-	(8,783)
Transfer to share premium for share options exercised	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	(29,343)	(29,343)	-	(29,343)
As at 31 DECEMBER 2011 (Unaudited)	1,001,093	(53,371)	319,426	(5,172)	30	-	(451,403)	799,095	1,609,698	7,021	1,616,719
As at 1 January 2012											
- as previously stated	1,001,093	(53,371)	319,426	(5,172)	30	-	(466,670)	809,719	1,605,055	7,021	1,612,076
-effects of MFRS adoption							15,267	(10,624)	4,643		4,643
At 1 January 2012, as restated	1,001,093	(53,371)	319,426	(5,172)	30	-	(451,403)	799,095	1,609,698	7,021	1,616,719
Total comprehensive (loss)/ income for the year	-	-	-	5,228	-	-	(52,933)	130,602	82,897	(2,785)	80,112
Transaction with owners in their capacity as owner											
Acquisition of equity interest in subsidiary										1	1
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Issue of shares pursuant to: - Right issue	488,921	-	(293,352)	-	-	-	-	-	195,569	-	195,569
Allocation of fair value of Warrant to "Warrant Reserve"	(14,668)	-	-	-	-	14,668	-	-	-	-	-
Share Buy Back	-	(14)	-	-	-	-	-	-	(14)	-	(14)
Share Issue expenses	-	-	(8,914)	-	-	-	-	-	(8,914)	-	(8,914)
Dividend	-	-	-	-	-	-	-	-	-	-	-
As at 31 DECEMBER 2012 (Unaudited)	1,475,346	(53,385)	17,160	56	30	14,668	(504,336)	929,697	1,879,236	4,237	1,883,473

The notes set out on pages 5 to 19 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)**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31 DECEMBER 2012**

(Unaudited)

	31.12.2012 RM '000	31.12.2011 RM '000
Cash flows from operating activities		
Profit/(Loss) before tax	69,049	(155,882)
Adjustments for:		
Amortisation of intangible assets	32,743	33,401
Depreciation	11,566	10,649
Interest expense	56,523	49,008
Interest income	(2,226)	(3,632)
(Gain)/loss on foreign exchange-unrealised	(10,383)	5,791
Loss/(Gain) on disposal of property, plant and equipment	1,101	(70)
Share of loss of in associates and jointly-controlled entities	105	480
Change in fair value of forward contract	6,250	3,802
(Reversal)/Provision for foreseeable losses	(41,831)	50,376
Impairment of Goodwill	5,000	2,794
Operating profit before working capital changes	<u>127,897</u>	<u>(3,283)</u>
(Increase)/Decrease in working capital:		
Inventories	302	(3,057)
Receivables, deposits and prepayments	41,181	(233,687)
Payables and accruals and long service leave liability	(152,195)	442,148
Cash used in operations		
Income taxes paid	(48,822)	(21,784)
Interest paid	(3,682)	(2,540)
Interest received	2,226	3,632
Net cash (used) / generated from operating activities	<u>(33,093)</u>	<u>181,429</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(50,514)	(48,755)
Investment in Redeemable Convertible Preference Shares	-	(10,000)
Acquisition of minority interest	1	-
Acquisition of investment in Joint-controlled entity and associates	(2,100)	(5,330)
Acquisition of other intangible assets	(8,012)	(3,892)
Acquisition of subsi, net of cash acquired	(41,439)	(940)
Proceeds from issuance of share to minority interest	-	-
Proceeds from disposal of property, plant and equipment	311	2,601
Net cash used in investing activities	<u>(101,753)</u>	<u>(66,316)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	195,569	-
Share buy back	(14)	(8,783)
Net (repayment)/proceeds from bill payable	(168,409)	133,281
Proceeds/(Repayment) of hire purchase liabilities	(7,408)	(10,115)
Net proceeds from term loan and revolving credit	56,640	29,783
Net repayment of ICP/MTN	(95,000)	(75,000)
Interest expenses	(52,841)	(46,468)
Dividend paid	-	(29,343)
Share issue expenses	(8,914)	-
Net cash used in financing activities	<u>(80,377)</u>	<u>(6,645)</u>
Net (decrease)/ increase in cash and cash equivalents	(215,223)	108,468
Cash and cash equivalents at beginning of year	399,167	290,699
Cash and cash equivalents at end of year	<u>183,944</u>	<u>399,167</u>
Cash & bank balances	179,462	341,381
Deposits with financial institutions	-	9,987
Deposits with licensed banks	8,964	65,061
	<u>188,426</u>	<u>416,429</u>
Bank overdraft	(4,482)	(17,262)
	<u>183,944</u>	<u>399,167</u>

The notes set out on pages 5 to 19 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 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. An explanation of how the transition to MFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note B16.

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 was 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 was 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 year 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)	<u>(95,000)</u>
Balance of ICP/IMTN outstanding as at 31 December 2012	<u>95,000</u>

As at 31 December 2012, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") is RM95.0 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 23,261,275 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 12 months ended 31.12.2012	Gross Profit 12 months ended 31.12.2012	EBITDA 12 months ended 31.12.2012
	RM'000	RM'000	RM'000
Asia & Oceania	923,844	161,637	68,013
Europe	1,371,260	248,965	177,538
Americas	77,160	6,640	(23,563)
Total	2,372,264	417,242	221,988

	Revenue 12 months ended 31.12.2011	Gross Profit 12 months ended 31.12.2011	EBITDA 12 months ended 31.12.2011
	RM'000	RM'000	RM'000
Asia & Oceania	539,683	(6,837)	(70,078)
Europe	1,357,592	235,715	122,684
Americas	66,503	(41,712)	(65,220)
Total	1,963,778	187,166	(12,614)

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 year 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 year 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).

(3) On 31 October 2012, KMK Power Sdn Bhd (“KMK”), had completed its acquisition of one (1) ordinary share of GBP1.00 (“Sale Shares”) representing 100% equity interest in Poplar Investments Limited (“PIL”). The total consideration paid is GBP26.26 million (approximately RM128.95 million).

(4) On 13 December 2012, KNM Group Berhad (“KNM”) had entered into a Shareholders cum Joint Venture Agreement (“JVA”) with HMS Oil & Gas Sdn Bhd (“HMS”) to establish a company known as KNM HMS Energy Sdn Bhd (“KHE”) on 70% (KNM) : 30% (HMS) equity basis.

(5) KPS Inc., a wholly owned Canadian subsidiary had on 2 January 2013 incorporated a new subsidiary, KPS Technology Group LLC (“KPSTG”) in Houston, Texas for a total cash consideration of USD2.00 only.

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	56,569	47,343
Investment	5,438	4,609
	<u>62,007</u>	<u>51,952</u>

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A15. Related party transactions

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

	RM '000
Inter Merger Sdn Bhd (a)	
- Office rental, related charges and administrative expense	1,884
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	7,727
Tofield Realty Development Corporation (c)	
- General and civil contractor and provider of staff accommodation	489
Nassir Hazza (d)	
- General construction, civil and related mechanical and engineering work	-
KPS Technology & Engineering LLC(e)	
-Provision/Receipt of mechanical and engineering, general administrative and other support services	200
-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 director

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

(c) a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are director and shareholder

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

(e) 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 RM2.37 billion, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of RM221.99 million and profit after tax and minority interest of RM130.60 million for the year ended 31 December 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 progress recognition on stronger order book and stable contribution margin from projects.

Asia & Oceanic Segment

This segment has continued to contribute positively and has recorded a marked turn around compared to the immediate preceding year. Efforts to strengthen profitability are on-going through various initiatives undertaken to improve cost efficiency and productivity.

Europe Segment

Europe's contribution remains positive as it continues to operate with strong order book. Profitability improved in a stable operating activities scale.

Americas Segment

Performance from the America's segment continue to be weighed down by South America albeit with lower losses compared to previous year. Realisation of new orders is below expectation.

B2. Variation of results against preceding quarter

The Group's revenue of RM590.24 million for the quarter under review was lower by RM19.26 million against the immediate preceding quarter's revenue of RM609.50 million. Whereas profit before taxation and minority interest decreased to RM8.46 million from RM22.88 million on higher operating overheads and financing cost incurred and impairment of goodwill arising from investment in Brazil.

B3. Prospects

The Board is cautiously optimistic of the Group's financial performance into the next financial year:

- Focus on cost efficiency and productivity initiatives will continue to be the focus for the Asia & Oceanic segment. Performance is expected to be positive.
- The European segment profitability is expected to continue with its order book carried forward into Year 2013.
- While the performance of the Americas is expected to remain challenging, various initiatives are in progress to tap the improving industries' opportunities in the region.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 31.12.2012 RM'000	3 months Ended 31.12.2011 RM'000	12 months Ended 31.12.2012 RM'000	12 months Ended 31.12.2011 RM'000
Income Tax expense :				
Current	15,843	17,243	39,545	44,353
Prior period	1,925	429	2,302	(173)
Deferred tax	(26,761)	(29,940)	(101,461)	(106,280)
	<u>(8,993)</u>	<u>(12,268)</u>	<u>(59,614)</u>	<u>(62,100)</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 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 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 and approval had been granted by the Securities Commission for the Company to implement the same by 20 April 2013.

- (2) On 20 November 2012, the Company completed its right issue exercise involving the issuance of 488,920,659 new ordinary shares of RM1.00 each in the Company on the basis of 1 right share for every 2 existing Company's shares together with up to 488,920,659 free detachable warrants on the basis of 1 warrant for every 1 rights share subscribed for.

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The utilisation of rights issue proceeds are as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation RM'000	Intended Time Frame
Repayment of bank borrowings	150,000	(154,764)	(4,764)	Completed
Defray expenses relating to the exercise	6,000	(7,201)	(1,201)	Completed
Working capital	39,569	(33,604)	5,965	Completed
Total	195,569	(195,569)	-	

B9. Group borrowings and debt securities

The Group's borrowings as at the end of the reporting year were as follows:

	RM'000
Short term:	
Borrowings (secured)	154,618
Borrowings (unsecured)	60,344
ICP/IMTN	95,000
Bank Overdraft	4,482
Bill Payable	218,970
Hire Purchase	7,062
Revolving credit	90,500
	<u>630,976</u>
Long term :	
Borrowings (secured)	209,003
Borrowings (unsecured)	72,715
IMTN	-
Hire Purchase	20,926
	<u>302,644</u>
	<u>933,620</u>

The above are also inclusive of other borrowings in foreign currency of RMB23.1 million, EURO36.36 million, CAD2.71 million, and BRL2.29 million.

The exchange rates used are 1 RMB = RM 0.4908, 1 EURO = RM 4.0355, 1 CAD = RM 3.0789, and 1 BRL = RM 1.4928

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 31 December 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	485,284	289
-1 year to 3 years	66,573	36
- More than 3 years	-	-
	551,857	325

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 YEAR

	3 Months ended 31.12.2012 RM'000	3 Months ended 31.12.2011 RM'000	12 Months ended 31.12.2012 RM'000	12 Months ended 31.12.2011 RM'000
(a)				
Profit for the period/year is arrived at after charging and crediting:				
Allowance /(Reversal) for impairment loss on doubtful debt	486	1,498	(4,102)	3,281
Net (Gain)/Loss on foreign exchange	594	(2,041)	(8,294)	(7,304)
Net Loss/(Gain) on derivative	(964)	(17,707)	6,250	(6,975)
Provision /(Reversal) for foreseeable losses	(13,245)	(13,157)	(41,831)	50,376
Impairment of goodwill	5,000	2,794	5,000	2,794
Amortisation of intangible asset	8,418	8,296	32,743	33,401
(Reversal)/Provision for warranty	(2,942)	1,958	(894)	642
Late delivery charges	3,627	9,788	3,760	13,104
And crediting:				
Interest income	792	802	2,226	3,632
(b)				
Interest Expenses	20,513	13,222	59,615	52,190
(c)				
Depreciation charge for the period/year:				
Income statement	6,632	5,371	11,566	10,649
Construction work in progress	10,185	10,995	51,137	50,180
	<u>16,817</u>	<u>16,366</u>	<u>62,703</u>	<u>60,829</u>

B12. Realised and Unrealised Profit/Losses Disclosure

	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000
Total retained profit of KNM Group and its subsidiaries		
- Realised	530,470	323,759
- Unrealised	(109,440)	52,679
Total share of retained profit / (accumulated losses) from associated companies:		
- Realised	(4,464)	(293)
- Unrealised	(32)	(110)
Total share of retained profit/(accumulated losses) from jointly controlled entities:		
- Realised	(2,977)	(1,126)
- Unrealised	(24)	573
Less: Consolidation adjustments	516,164	434,237
Total Group retained profits as per consolidated accounts	929,697	809,719

B13. Material litigation

As at the date of this announcement, there were no material litigation since the last annual balance sheet date except for the following:-

Shah Alam High Court (Commercial Division)

Suit No.: 28-461-11/2012

KNM Process Systems Sdn Bhd (Petitioner) vs Mission Biofuels Sdn Bhd (Respondent)

KNM Group Berhad's wholly-owned subsidiary, KNM Process Systems Sdn Bhd ("KNMPS") had today, 9 November 2012 served a Winding Up Petition under Section 218(1)(e) & (i) and Section 218(2)(c) of the Companies Act 1965 dated 1 November 2012 against Mission Biofuels Sdn Bhd ("Mission Biofuels").

Mission Biofuels is indebted to KNMPS for, inter alia, a sum of RM50,662,057.80 for goods sold and delivered and works carried out by KNMPS for Mission Biofuels in relation to, inter alia, a project known as "The design, engineering, procurement, manufacture, supply, erection, construction, installation, completion, testing and commissioning of a continuous Acid Conditioning and Silica Pretreatment, FFA pre-treatment and Methyl Ester Transesterification Plant with biodiesel output of 750 tpd (250,000) tpa and 98% pure technical grade glycerine output of 82 tpd (27,308 tpa) along with the associated balance of plant at Kuantan Port, Malaysia" ("Project").

The Winding Up Petition was first heard on 19 February 2013 and is now fixed for continued hearing on 27 February 2013.

B14. Dividend payable

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

B15. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Basic earnings per share				
Net Profit/(loss) attributable to shareholders (RM'000)	17,591	(5,342)	130,602	(91,766)
Number of shares at the beginning of the year ('000)	1,001,093	1,001,093	1,001,093	1,001,093
Effect of share consolidation	-	-	-	-
Effect of Right Issue ('000)	60,278	-	60,278	-
Effect of Share Buy Back	(23,256)	(22,513)	(23,256)	(22,513)
Weighted average number of shares ('000)	1,038,115	978,580	1,038,115	978,580
Basic earnings per share (sen)	1.69	(0.55)	12.58	(9.38)

B16. Explanation of transition to MFRSs

In preparing its opening MFRS statement of financial position, the Group has adjusted certain figures reported previously in financial statements prepared in accordance to previous FRS. Presentation on the transition from the previous FRS to the new MFRS in the Group's financial position, financial performance and cash flows is set out in the following tables and notes.

KNM GROUP BERHAD
(Company No: 521348-H)

B16.1 Reconciliation of financial position

	FRS RM'000	Effect of transition to MFRS 1 January 2011 RM'000	MFRS RM'000	FRS RM'000	Effect of transition to MFRS 31 December 2011 RM'000	MFRS RM'000
Assets						
Non-current assets						
Intangible Assets	620,858		620,858	594,641		594,641
Goodwill	798,974	(10,624)	788,350	798,507	(10,624)	787,883
Property, plant and equipment	748,722	17,063	765,785	744,824	17,063	761,887
Other investment, including derivative	3,620		3,620	14,088		14,088
Investment in associates	455		455	45		45
Investment in jointly-controlled entities	316		316	5,882		5,882
Deferred Tax Asset	195,946		195,946	279,922		279,922
	<u>2,368,891</u>		<u>2,375,330</u>	<u>2,437,909</u>		<u>2,444,348</u>
Current Assets						
Inventories	69,063		69,063	72,120		72,120
Contracts work in progress	395,151		395,151	450,390		450,390
Trade and other receivables	394,810		394,810	555,021		555,021
Cash and cash equivalents	296,237		296,237	416,429		416,429
	<u>1,155,261</u>		<u>1,155,261</u>	<u>1,493,960</u>		<u>1,493,960</u>
Total Assets	<u>3,524,152</u>		<u>3,530,591</u>	<u>3,931,869</u>		<u>3,938,308</u>

KNM GROUP BERHAD
(Company No: 521348-H)

	Effect of transition to MFRS		Effect of transition to MFRS			
	FRS	1 January 2011	MFRS	FRS	31 December 2011	MFRS
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EQUITY AND LIABILITIES						
Equity attributable to equity holders of the parent						
Share Capital	1,001,093		1,001,093	1,001,093		1,001,093
Treasury Shares	(44,588)		(44,588)	(53,371)		(53,371)
Reserves	761,936	4,643	766,579	657,333	4,643	661,976
	1,718,441		1,723,084	1,605,055		1,609,698
Non-controlling interests	12,328		12,328	7,021		7,021
Total Equity	1,730,769		1,735,412	1,612,076		1,616,719
Non- current liabilities						
Long term payable	25,552		25,552	20,702		20,702
Long service leave liability	1,911		1,911	2,366		2,366
Loans and borrowings	380,493		380,493	366,390		366,390
Deferred taxation	265,928	1,796	267,724	238,042	1,796	239,838
	673,884		675,680	627,500		629,296
Current liabilities						
Payables and accruals	389,574		389,574	518,164		518,164
Deferred income	57,346		57,346	390,160		390,160
Loans and borrowings	664,641		664,641	777,894		777,894
Current tax liabilities	7,938		7,938	6,075		6,075
	1,119,499		1,119,499	1,692,293		1,692,293
Total liabilities	1,793,383		1,795,179	2,319,793		2,321,589
TOTAL EQUITY AND LIABILITIES	3,524,152		3,530,591	3,931,869		3,938,308
Net assets per share attributable to equity holders of the parent (RM)	1.72		1.72	1.60		1.61

B16.2 Material adjustment to the profit or loss and other comprehensive income and statement of cash flows

There are no material differences between the profit or loss and other comprehensive income and statement of cash flows presented under MFRS and under FRS.

B16.3 Notes to reconciliation

(a) Revaluation Reserve

	1 January 2011	31 December 2011
	RM'000	RM'000
Fair value of leasehold land	15,267	15,267
Increase of Revaluation Reserve	<u>15,267</u>	<u>15,267</u>

(b) Deferred taxation

	1 January 2011	31 December 2011
	RM'000	RM'000
Deferred tax liabilities due to revaluation of leasehold land	1,796	1,796
Increase of Deferred tax liabilities	<u>1,796</u>	<u>1,796</u>

(c) Retained earnings

The changes that affected the retained earnings are as follows:

	1 January 2011	31 December 2011
	RM'000	RM'000
Charge out of transaction cost under business combination	(10,624)	(10,624)
Decrease in retained earnings	<u>(10,624)</u>	<u>(10,624)</u>

B17. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 26 February 2013.