

# KNM GROUP BERHAD

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

## INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 MARCH 2014 (Unaudited)

### 1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter			
	Unaudited	Unaudited	Unaudited	Unaudited
	3 months ended	3 months ended	31.03.2014	31.03.2013
	31.03.2014	31.03.2013	RM'000	RM'000
	RM'000	RM'000		
<b>Contract revenue</b>	493,899	489,614	493,899	489,614
<b>Operating profit</b>	38,565	14,002	38,565	14,002
Financing costs	(14,852)	(10,895)	(14,852)	(10,895)
Interest income	652	610	652	610
Share of loss of equity accounted investees, net of tax	(1,114)	(770)	(1,114)	(770)
<b>Profit before tax</b>	23,251	2,947	23,251	2,947
Tax expense	(9,614)	(999)	(9,614)	(999)
<b>Net profit for the period</b>	13,637	1,948	13,637	1,948
<b>Other comprehensive income / (loss), net of tax</b>				
Foreign currency translation differences	(7,292)	(21,430)	(7,292)	(21,430)
Net investment in subsidiaries	(2,427)	(5,839)	(2,427)	(5,839)
Cash Flow hedge	(319)	(337)	(319)	(337)
Share of other comprehensive income of equity accounted investee	(263)	233	(263)	233
<b>Other comprehensive loss for the period, net of tax</b>	(10,301)	(27,373)	(10,301)	(27,373)
<b>Total comprehensive income / (loss) for the period</b>	3,336	(25,425)	3,336	(25,425)
Attributable to:				
Equity holders of the parent	14,172	2,224	14,172	2,224
Minority interest	(535)	(276)	(535)	(276)
	13,637	1,948	13,637	1,948
<b>Total comprehensive income attributable to:</b>				
Equity holders of the parent	3,740	(25,150)	3,740	(25,150)
Minority interest	(404)	(275)	(404)	(275)
Total comprehensive income / (loss) for the period	3,336	(25,425)	3,336	(25,425)
Earnings per share:				
- Basic / Diluted (sen)	0.97	0.15	0.97	0.15

The notes set out on pages 5 to 15 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 31.03.2014 RM'000	Audited As at 31.12.2013 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible Assets		578,260	588,901
Goodwill		828,029	830,048
Property, plant and equipment		808,162	834,794
Other investment, including derivative		15,331	12,758
Investments in associates		30	30
Investments in joint venture		3,403	4,561
Deferred Tax Assets		367,733	370,248
		<u>2,600,948</u>	<u>2,641,340</u>
<b>Current assets</b>			
Inventories		75,754	77,905
Contracts work in progress		484,199	449,191
Trade and other receivables		697,337	607,148
Cash and cash equivalents		157,016	268,301
		<u>1,414,306</u>	<u>1,402,545</u>
<b>TOTAL ASSETS</b>		<u>4,015,254</u>	<u>4,043,885</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		1,445,033	1,445,033
Treasury Shares		(53,390)	(53,390)
Reserves		671,837	668,112
		<u>2,063,480</u>	<u>2,059,755</u>
<b>Non-controlling interests</b>		<u>(559)</u>	<u>(156)</u>
<b>Total Equity</b>		<u>2,062,921</u>	<u>2,059,599</u>
<b>Non-current liabilities</b>			
Long term payable		52,771	52,819
Long service leave liability		2,459	2,324
Loans and borrowings	B9	359,739	454,263
Deferred taxation		237,292	233,050
		<u>652,261</u>	<u>742,456</u>
<b>Current liabilities</b>			
Payables and accruals		524,900	531,710
Deferred income		196,714	216,653
Loans and borrowings	B9	577,542	492,758
Current tax liabilities		916	709
		<u>1,300,072</u>	<u>1,241,830</u>
<b>Total liabilities</b>		<u>1,952,333</u>	<u>1,984,286</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,015,254</u>	<u>4,043,885</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.38</u>	<u>1.38</u>

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**KNM GROUP BERHAD**

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD  
ENDED 31 MARCH 2014**

	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	Non-Distributable AFS Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserve RM'000	Retained Profit RM'000	Total RM'000		
<b>As at 1 January 2013</b>	1,445,033	(53,385)	16,707	56	-	44,981	(516,998)	896,315	1,832,709	4,237	1,836,946
Total comprehensive (loss)/ income for the period	-	-	-	(337)	-	-	(26,880)	2,224	(24,993)	(432)	(25,425)
<b>Transaction with owners in their capacity as owner</b>											
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	-	-	-	1	1
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	300	300
<b>As at 31 MARCH 2013 (Unaudited)</b>	<b>1,445,033</b>	<b>(53,385)</b>	<b>16,707</b>	<b>(281)</b>	<b>-</b>	<b>44,981</b>	<b>(543,878)</b>	<b>898,539</b>	<b>1,807,716</b>	<b>4,106</b>	<b>1,811,822</b>
<b>As at 1 January 2014</b>	1,445,033	(53,390)	16,707	323	-	44,981	(307,871)	913,972	2,059,755	(156)	2,059,599
Total comprehensive income / (loss) for the period	-	-	-	-	-	-	-	14,172	14,172	(535)	13,637
<b>Transaction with owners in their capacity as owner</b>											
Transfer from Revaluation Reserve to Retained Profits	-	-	-	-	-	-	(955)	955	-	-	-
Cash flow hedge	-	-	-	(319)	-	-	-	-	(319)	-	(319)
Foreign Exchange Reserve	-	-	-	-	-	-	(10,114)	-	(10,114)	132	(9,982)
Share issue expenses	-	-	(14)	-	-	-	-	-	(14)	-	(14)
<b>As at 31 MARCH 2014 (Unaudited)</b>	<b>1,445,033</b>	<b>(53,390)</b>	<b>16,693</b>	<b>4</b>	<b>-</b>	<b>44,981</b>	<b>(318,940)</b>	<b>929,099</b>	<b>2,063,480</b>	<b>(559)</b>	<b>2,062,921</b>

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**KNM GROUP BERHAD**

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD ENDED****31 MARCH 2014****(Unaudited)**

	<b>31.03.2014</b>	<b>31.3.2013</b>
	<b>RM</b>	<b>RM</b>
	<b>'000</b>	<b>'000</b>
<b>Cash flows from operating activities</b>		
Profit before tax	23,251	2,947
Adjustments for:		
Amortisation of intangible assets	9,252	8,380
Depreciation	3,509	2,842
Interest expense	14,534	10,162
Interest income	(652)	(610)
(Gain) / Loss on foreign exchange-unrealised	(3,967)	2,896
(Gain)/Loss on disposal of property, plant and equipment	(3,200)	(870)
Share of loss of equity accounted investees, net of tax	1,114	770
Change in fair value of forward contract	(319)	1,371
Reversal of impairment of other investment	(2,122)	-
Gain on disposal of other investment	(2,437)	-
Operating profit before working capital changes	<u>38,963</u>	<u>27,888</u>
Decrease / (Increase) in working capital:		
Inventories	2,151	1,743
Contract work in progress, trade and other receivables	(112,656)	142,301
Payables and accruals and long service leave liability	(26,601)	(153,039)
Cash used in operations		
Income taxes paid	(5,376)	(8,383)
Interest paid	(1,245)	(746)
Interest received	652	610
<b>Net cash (used in) / generated from operating activities</b>	<u>(104,112)</u>	<u>10,374</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(3,329)	(1,257)
Proceed from disposal of other investment	7,255	-
Proceeds from issuance of share to minority interest	-	300
Proceeds from disposal of property, plant and equipment	11,945	841
<b>Net cash from / (used in) investing activities</b>	<u>15,871</u>	<u>(116)</u>
<b>Cash flows from financing activities</b>		
Net repayment of bill payable	(137,599)	(11,961)
Repayment of hire purchase liabilities	(3,058)	(574)
Net drawdown/ (repayment) of term loan and revolving credit	130,186	2,405
Interest expenses	(13,289)	(9,416)
Share issue expenses	(14)	-
<b>Net cash used in financing activities</b>	<u>(23,774)</u>	<u>(19,546)</u>
Net decrease in cash and cash equivalents	(112,015)	(9,288)
Cash and cash equivalents at beginning of period	261,587	185,331
Cash and cash equivalents at end of period	<u>149,572</u>	<u>176,043</u>
Cash & bank balances	130,487	118,478
Deposits with financial institutions	-	-
Deposits with licensed banks	<u>26,529</u>	<u>73,716</u>
	157,016	192,194
Bank overdraft	<u>(7,444)</u>	<u>(16,151)</u>
	<u>149,572</u>	<u>176,043</u>

The notes set out on pages 5 to 15 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 2014

### PART A: EXPLANATORY NOTES AS PER MFRS 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 2013. 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 2013.

#### A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2013 were prepared in accordance with MFRS. Except for certain differences, the requirements under IFRS 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 2013.

As of 1<sup>st</sup> January 2014, the Group has adopted the following new and revised MFRS, amendments and IC interpretations (collectively referred to as “pronouncements”) which are effective for annual periods beginning on or after 1<sup>st</sup> January 2014.

Amendments to MFRS 10	<i>Consolidated Financial Statements: Investment Entities</i>
Amendments to MFRS 12	<i>Disclosure of Interests in Other Entities: Investment Entities</i>
Amendments to MFRS 127	<i>Separate Financial Statements (2011): Investment Entities</i>
Amendments to MFRS 132	<i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
Amendments to MFRS 136	<i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to MFRS 139	<i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
IC Interpretation 21	<i>Levies</i>

The adoptions of the above pronouncements do not have any impact on the financial statements of the Group.

#### A3. Qualification of annual financial statements

There was no audit qualification in the annual financial statements of the Group for the year ended 31 December 2013.

#### 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.

B. As at the date of this report, the Company has repurchased a total 23,271,275 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.

**A8. Dividend Paid**

No dividend was paid during the quarter under review.

**A9. Segment information**

Segmental analysis of the revenue and result:-

Geographical segments:

	<b>Revenue 3 months ended 31.3.2014 RM'000</b>	<b>Gross Profit 3 months ended 31.3.2014 RM'000</b>	<b>EBITDA 3 months ended 31.3.2014 RM'000</b>
Asia & Oceania	140,745	17,097	6,117
Europe	334,982	79,654	56,444
Americas	18,172	4,013	1,926
Continuing operations	493,899	100,764	64,487
Discontinued operations	-	-	-
	<b>493,899</b>	<b>100,764</b>	<b>64,487</b>

  

	<b>Revenue 3 months ended 31.3.2013 RM'000</b>	<b>Gross Profit 3 months ended 31.3.2013 RM'000</b>	<b>EBITDA 3 months ended 31.3.2013 RM'000</b>
Asia & Oceania	177,869	32,514	8,326
Europe	299,427	53,189	30,781
Americas	10,959	2,472	1,439
Continuing operations	488,255	88,175	40,546
Discontinued operations	1,359	(506)	(1,985)
	<b>489,614</b>	<b>87,669</b>	<b>38,561</b>

#### **A10. Valuation of property, plant and equipment**

Valuation of freehold lands of the Group have been brought forward without amendment from the financial statements for the year ended 31 December 2013.

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**

Save and except for the ongoing de-registration/striking-off the Affected Subsidiaries as per item B8(1), 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**

	<b>Approved and contracted for RM'000</b>	<b>Approved but not contracted for RM'000</b>
Property, plant and equipment	1,803	45.842
Investment	-	1,894
	<u>1,803</u>	<u>47,736</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	363
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	2,323
Tofield Realty Development Corporation (c)	
- General and civil contractor and provider of staff accommodation	96

(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

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

### **B1. Review of performance**

The Group achieved revenue of RM493.90 million, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of RM64.49 million and profit after tax and minority interest of RM14.17 million for the period ended 31 March 2014. Compared to the previous year, the higher revenue and profit after tax and minority interest in this year was due to higher project progress recognition, better project contribution margin and lower operating cost.

#### Asia & Oceanic Segment

This segment registered lower job progress recognition.

#### Europe Segment

Europe's contribution remains positive operate with improved order book.

#### Americas Segment

Americas' contribution to the Group improved.

### **B2. Variation of results against preceding quarter**

The Group's revenue of RM493.90 million for the quarter under review was lower by RM87.25 million against the immediate preceding quarter's revenue of RM581.15 million. Profit before taxation reported higher at RM23.25 million as compared to immediate preceding quarter's profit before taxation of RM15.08 million due to higher project contribution margin and lower operating cost.

### **B3. Prospects**

The Board is optimistic of the Group's financial performance for the remaining financial year.

- The Asia & Oceanic segment is expected to improve its order book with positive industries outlook in Malaysia.
- The European segment profitability is expected to continue with its improved order book.
- The Americas segment is expected to remain positive.

### **B4. Profit forecast**

Not applicable as no profit forecast was given.



**B5. Tax expense**

	<b>3 months Ended 31.3.2014 RM'000</b>	<b>3 months Ended 31.3.2013 RM'000</b>
Current	5,974	1,688
Prior period	(664)	(1,881)
Deferred tax	4,304	1,192
	<u>9,614</u>	<u>999</u>

The Group's effective tax rate for the financial period is higher than statutory tax rate mainly due to deferred tax effects.

**B6. Unquoted investments and properties**

There were no significant investments or disposals in unquoted investments and properties for the current quarter and financial period to date.

**B7. Quoted and marketable investments**

There were no significant 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**

- On 28 November 2013, the Company had announced the proposed dissolution of the following inactive and/or dormant subsidiaries ("Affected Subsidiaries") either by way of voluntary winding up or de-registering/striking-off the Affected Subsidiaries from the respective register of companies with the relevant authorities ("Proposed Dissolution"):-

<b>Subsidiaries</b>	<b>Date of Incorporation</b>	<b>Paid Up Capital</b>	<b>% Shareholding</b>
KNM Eurasia Sdn Bhd	28 February 1992/ Malaysia	RM100,000	100
KNM Process Systems (Kazakhstan) Sdn Bhd	16 February 2005/ Malaysia	RM2	100
KNM Process Systems (Turkmenistan) Sdn Bhd	10 March 2005/ Malaysia	RM2	100
KNM Process Systems (Uzbekistan) Sdn Bhd	10 July 1995/ Malaysia	RM2	100
KNM-DP Harta Bina Sdn Bhd*	24 September 1994/ Malaysia	RM200,000	93
KNM China Pte Limited	22 January 2010/ Hong Kong	HKD100	100
Borsig Compression (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100

Borsig Valves (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100
KNM Engineering Services Private Limited	4 October 2006/ India	INR100,000	100
KNM Oil & Gas (B) Sdn Bhd	10 May 2005/ Brunei	BND100,000	100
KNM Services (Singapore) Pte Ltd	25 November 2009/ Singapore	USD1	100

*\*Note 1 – Both Ir Lee Swee Eng and Mr Chew Fook Sin has a collective interest of 63.15% in Tegas Klasik Sdn Bhd (“TKSB”). TKS B has an indirect interest of 7.14% in KNM-DP Harta Bina Sdn. Bhd as well as a 1.70% direct interest in KNM Group Bhd.*

The Proposed Dissolution is currently ongoing.

2. On 27 January 2014, it was announced that the Company intends to undertake the following corporate exercises:
  - i. Proposed par value reduction via the cancellation of RM0.50 of the par value of every existing ordinary share of RM1.00 each in the issued and paid-up capital of the Company pursuant to Section 64 of the Companies Act, 1965 (“Proposed Par Value Reduction”);
  - ii. Proposed amendment to relevant clauses of the Memorandum and/or Articles of Association of the Company for the Proposed Par Value Reduction (“Proposed Amendment”); and
  - iii. Proposed establishment of an employees’ share option scheme for the eligible employees and directors of KNM and its subsidiaries (“Proposed ESOS”).

A conditional approval from Bursa Malaysia Securities Berhad was obtained on 28 February 2014 and the Proposals were subsequently approved by the Shareholders of the Company at the Extraordinary General Meeting of the Company held on 18 April 2014.

The Par Value Reduction exercise was completed upon the issuance of the requisite Form 29 dated 30 April 2014 by the Companies Commission of Malaysia. The par value of the shares of the Company is now fixed at RM0.50 per share.

In respect of the ESOS exercise, it has been announced to Bursa Securities Malaysia Berhad that the effective date of implementation of the said ESOS is on 20 May 2014.

3. On 24 February 2014, KNM Group Berhad’s wholly-owned subsidiary, KNM International Sdn Bhd (“KNMI”) had entered into a Joint Venture & Shareholders Agreement (“JVSHA”) with China Nuclear Industry 23 Construction Co Ltd (“CNI23”) to collaborate in pursuing and securing construction works for mechanical, electrical and erection related to oil and gas, power, petrochemical and renewable energy projects (“Project”) in Malaysia and South East Asia (“Territory”) (hereinafter collectively referred to as “Business”). KNMI and CNI23 intends to invest in KNM-CIW Sdn Bhd [to be renamed “CNI Engineering & Construction Malaysia Sdn Bhd” assuming that Companies Commission of Malaysia’s approval is obtained] (“JVCO”) in cash on 70% (KNMI) : 30% (CNI23) basis and upon completion of the JVSHA, the paid up capital of JVCO shall be RM1,000,000.00 (“the Investment”).

The investment is still pending fulfillment of the conditions precedent as stated in the JVSHA.

4. On 6 May 2014, the Company announced its intention to implement a private placement of up to 146,674,100 new ordinary shares of RM0.50 each in KNM (“KNM Shares”) to independent third party investor(s) to be identified at a later date. The additional listing application in connection with the Proposed Private Placement has been submitted to Bursa Malaysia Securities Berhad on 7 May 2014.

The approval from Bursa Malaysia Securities Berhad has been obtained on 14 May 2014 and the Company has fixed the issue price at RM0.70 per Placement Share to be issued pursuant to the Private Placement.

The aforementioned issue price of RM0.70 per Placement Share represents a discount of approximately 9.46% or RM0.0731 from the five (5)-day weighted average market price of KNM from 12 May 2014 to 19 May 2014 of approximately RM0.7731 per share.

The Proposed Private Placement exercise is pending share listing.

#### **B9. Group borrowings and debt securities**

The Group’s borrowings as at the end of the reporting period were as follows:

	<b>RM’000</b>
<b>Short term:</b>	
Borrowings (secured)	395,396
Borrowings (unsecured)	53,272
Bank Overdraft	7,444
Bill Payable	58,721
Hire Purchase	12,709
Revolving credit	50,000
	<u>577,542</u>
 <b>Long term :</b>	
Borrowings (secured)	323,317
Borrowings (unsecured)	15,303
Hire Purchase	21,119
	<u>359,739</u>
	<u>937,281</u>

The above are also inclusive of other borrowings in foreign currency of RMB 28.50 million, EURO 87.99 million and CAD 6.10 million.

The exchange rates used are 1 RMB = RM 0.5251, 1 EURO = RM 4.4956 and 1 CAD = RM 2.9545.

## B10. Financial Instruments

With the adoption of MFRS 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 March 2014 are as follows:-

<b>Type of Derivative</b>	<b>Contract/Notional value RM'000</b>	<b>(Gain) /Loss on Fair value changes RM'000</b>
Foreign Exchange Contracts		
-Less than 1 year	317,376	(1,783)
-1 year to 3 years	-	-
- More than 3 years	-	-
	<hr/>	<hr/>
	317,376	(1,783)

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**

	<b>3 Months ended 31.3.2014 RM'000</b>	<b>3 Months ended 31.3.2013 Rm'000</b>
(a)		
Profit for the period is arrived at after charging and crediting:		
Allowance for impairment loss on doubtful debt	-	155
Bad debts written off	88	-
Net Loss on foreign exchange	3,641	2,034
Net (Gain) / Loss on derivative	(319)	1,371
Amortisation of intangible asset	9,252	8,380
Provision / (Reversal) for warranty	436	(35)
Provision / (Reversal) of late delivery charges	247	(19)
And crediting:		
Interest income	652	610
Gain on disposal of other investment	2,437	-
(b)		
Interest expenses	14,852	10,895
(c)		
Depreciation charge for the period:		
Income statement	3,509	2,842
Construction work in progress	13,161	13,337
	<u>16,670</u>	<u>16,179</u>

**B12. Realised and Unrealised Profit/Losses Disclosure**

	<b>As at 31 March 2014 RM'000</b>	<b>As at 31 December 2013 RM'000</b>
Total retained profit of KNM Group and its subsidiaries		
- Realised	640,587	621,697
- Unrealised	(152,311)	(148,004)
Total share of accumulated losses from associated companies:		
- Realised	(4)	(10)
- Unrealised	-	-
Total share of retained profit / (accumulated losses) from joint venture entities:		
- Realised	(5,489)	(3,446)
- Unrealised	143	(1,358)
Add: Consolidation adjustments	446,173	445,093
Total Group retained profits as per consolidated accounts	<u>929,099</u>	<u>913,972</u>

### **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:-

#### **1. 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 on, 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 (the "KNMPS Petition") against Mission Biofuels Sdn Bhd ("Mission Biofuels").

The KNM Petition was heard and dismissed by the Courts with costs on 12 March 2013 on the ground that the Court was not satisfied that, taking into account Mission Biofuels' contingent and prospective liabilities, Mission Biofuels was unable to pay its debts.

On 15 March 2013 KNMPS filed an appeal against the dismissal.

On 20<sup>th</sup> November 2013 KNMPS sent a letter to the Court of Appeal requesting the court to fix a date for case management or hearing of the appeal.

The appeal is fixed for hearing on 22 July 2014.

#### **2. Shah Alam High Court (Commercial Division)**

**Suit No.: 28-179-04/2013**

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

On 19 April 2013, KNM Group Berhad's wholly-owned subsidiary, KNM Process Systems Sdn Bhd ("KNMPS") was served with a Petition for winding-up under Section 218(1)(e) & (i) and Section 218(2)(c) of the Companies Act 1965 (the "Act") dated 15 April 2013 (the "Mission Petition") by Mission Biofuels Sdn Bhd ("Mission Biofuels") purportedly in respect of works done by KNMPS pursuant to an EPCC Contract dated 25 July 2007 for the development of a Biodiesel Plant located in Kuantan Port.

The Mission Petition was heard and struck out by the Courts with costs on 9 May 2013 on the ground that the petition was not only without basis and therefore frivolous and vexatious, but also a clear abuse of process of court.

On 14 May 2013 Mission filed an appeal against the order of the court striking out the petition.

The appeal is fixed for hearing on 9 October 2014.

#### **3. In The Matter Of Arbitration Between KNM Process Systems Sdn Bhd (Claimant) and Mission Biofuels Sdn Bhd (Respondent)**

KNM Group Berhad ("KNM") wholly-owned subsidiary, KNM Process Systems Sdn Bhd ("KNMPS") has on 30 April 2014, filed its Points of Claim in the Arbitration proceedings as aforesaid between KNMPS and Mission Biofuels Sdn Bhd ("MBSB"), a wholly-owned subsidiary of MISSION NEWENERGY LIMITED (MNEL), a company listed both on the Australian Stock Exchange (under "MBT:ASX") and in the US OTC (under "MNELF:OTCBB"), in connection with the Engineering, Procurement, Construction and Commissioning Contract dated 25 July 2007 ("EPCC"). This

Arbitration is part of KNM Group's on-going litigation actions to protect and preserve KNMPS' rights and monetary claims for various works and services provided in respect of the EPCC.

KNMPS is claiming in Arbitration for:

- (a) RM30,500,000.00 being the balance contract price;
- (b) RM7,862,460.20 as variations;
- (c) USD9,879,959.10 for delays;
- (d) the following related claims:
  - i. USD8,229,793.44 being cost incurred after commissioning;
  - ii. RM18,691,554.39 for feedstock;
  - iii. RM2,568,362.90 for consumables;
  - iv. USD238,681.51 as processing fees for the DPO;
  - v. RM71,682.59 for duties and other levies;
  - vi. RM219,600.00 in connection with the performance bond;

MBSB has until 30 June 2014 to file its Points of Defence.

#### **B14. Dividend payable**

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

#### **B15. Earnings per share**

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Basic earnings per share</b>				
Net Profit attributable to shareholders (RM'000)	14,172	2,224	14,172	2,224
Number of shares at the beginning of the year ('000)	1,490,013	1,490,013	1,490,013	1,490,013
Effect of Share Buy Back	(23,271)	(23,261)	(23,271)	(23,261)
Weighted average number of shares ('000)	<u>1,466,742</u>	<u>1,466,752</u>	<u>1,466,742</u>	<u>1,466,752</u>
Basic earnings per share (sen)	0.97	0.15	0.97	0.15

#### **B16. Authorisation for issue**

The interim financial report was authorised for issue by the Board of Directors on 28 May 2014.