

# KNM GROUP BERHAD

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

## INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 MARCH 2019 (Unaudited)

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative year to date	
	Unaudited 3 months ended 31.03.2019 RM'000	Unaudited 3 months ended 31.03.2018 RM'000	Unaudited 31.03.2019 RM'000	Unaudited 31.03.2018 RM'000
<b>Revenue</b>	<u>363,379</u>	<u>337,759</u>	<u>363,379</u>	<u>337,759</u>
<b>Operating profit</b>	36,169	169	36,169	169
Finance costs	(15,838)	(14,480)	(15,838)	(14,480)
Interest income	88	463	88	463
Share of loss of equity-accounted associates and joint ventures, net of tax	-	(702)	-	(702)
<b>Profit/(Loss) before tax</b>	<u>20,419</u>	<u>(14,550)</u>	<u>20,419</u>	<u>(14,550)</u>
Tax expense	(5,818)	(4,315)	(5,818)	(4,315)
<b>Net profit/(loss) for the period</b>	<u>14,601</u>	<u>(18,865)</u>	<u>14,601</u>	<u>(18,865)</u>
<b>Other comprehensive expense, net of tax</b>				
Foreign currency translation differences for foreign operations	(34,428)	(66,047)	(34,428)	(66,047)
Hedge of net investment in subsidiaries	(6,151)	11,073	(6,151)	11,073
Cash flow hedge	695	(3,457)	695	(3,457)
Realisation of revaluation reserve on property, plant and equipment written off	-	-	-	-
Share of gain of equity-accounted associates and joint ventures	105	118	105	118
<b>Other comprehensive expense for the period, net of tax</b>	<u>(39,779)</u>	<u>(58,313)</u>	<u>(39,779)</u>	<u>(58,313)</u>
<b>Total comprehensive expense for the period</b>	<u>(25,178)</u>	<u>(77,178)</u>	<u>(25,178)</u>	<u>(77,178)</u>
Attributable to:				
Owners of the Company	18,438	(18,423)	18,438	(18,423)
Non-controlling interests	<u>(3,837)</u>	<u>(442)</u>	<u>(3,837)</u>	<u>(442)</u>
	<u>14,601</u>	<u>(18,865)</u>	<u>14,601</u>	<u>(18,865)</u>
<b>Total comprehensive expense attributable to:</b>				
Owners of the Company	(21,042)	(76,982)	(21,042)	(76,982)
Non-controlling interests	<u>(4,136)</u>	<u>(196)</u>	<u>(4,136)</u>	<u>(196)</u>
Total comprehensive expense for the period	<u>(25,178)</u>	<u>(77,178)</u>	<u>(25,178)</u>	<u>(77,178)</u>
Profit/(Loss) per share:				
- Basic / Diluted (sen)	0.79	(0.79)	0.79	(0.79)

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

# KNM GROUP BERHAD

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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.03.2019 RM'000	Audited As at 31.12.2018 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Other intangible assets		434,315	456,049
Goodwill		882,227	895,461
Property, plant and equipment		1,298,376	1,294,584
Right of use assets		8,407	-
Other investments, including derivatives		246	254
Deferred tax assets		9,719	10,922
		<u>2,633,290</u>	<u>2,657,270</u>
<b>Current assets</b>			
Inventories		107,739	139,813
Contract assets		183,792	188,708
Trade and other receivables		380,279	393,293
Cash and bank balances		321,645	411,149
		<u>993,455</u>	<u>1,132,963</u>
Assets classified as held for sale		59,197	58,956
		<u>1,052,652</u>	<u>1,191,919</u>
<b>TOTAL ASSETS</b>		<u>3,685,942</u>	<u>3,849,189</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		1,883,498	1,883,498
Treasury shares		(53,425)	(53,425)
Reserves		<u>(308,367)</u>	<u>(289,295)</u>
		1,521,706	1,540,778
<b>Non-controlling interests</b>		<u>(7,379)</u>	<u>(2,454)</u>
<b>Total Equity</b>		<u>1,514,327</u>	<u>1,538,324</u>
<b>Non-current liabilities</b>			
Long term payables		7,707	8,051
Long service leave liability		6,542	7,851
Lease liabilities		5,110	-
Loans and borrowings	B9	1,004,115	1,047,525
Deferred tax liabilities		186,237	193,852
		<u>1,209,711</u>	<u>1,257,279</u>
<b>Current liabilities</b>			
Trade and other payables		388,131	411,229
Contract liabilities		169,742	202,876
Lease liabilities		1,571	-
Loans and borrowings	B9	388,709	423,081
Current tax liabilities		13,751	16,400
		<u>961,904</u>	<u>1,053,586</u>
<b>Total liabilities</b>		<u>2,171,615</u>	<u>2,310,865</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>3,685,942</u>	<u>3,849,189</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.65</u>	<u>0.66</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 2019

	Attributable to equity holders of the parent						Total RM'000	Non-controlling Interests RM'000	Total equity RM'000
	Share Capital RM'000	Treasury Shares RM'000	Hedging Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserves RM'000	Retained Earnings/ (Accumulated Losses) RM'000			
<b>As at 1 January 2018</b>	1,883,513	(53,425)	(1,902)	27,468	(97,677)	638,245	2,396,222	13,514	2,409,736
- as previously reported									
Adjustment on initial application of MFRS 15, net of tax	-	-	-	-	-	(31,012)	(31,012)	-	(31,012)
<b>As at 1 January 2018 (Restated)</b>	1,883,513	(53,425)	(1,902)	27,468	(97,677)	607,233	2,365,210	13,514	2,378,724
Other comprehensive expense for the period	-	-	(1,788)	-	(56,771)	-	(58,559)	246	(58,313)
Loss for the year	-	-	-	-	-	(18,423)	(18,423)	(442)	(18,865)
<b>Total comprehensive expense for the period</b>	-	-	(1,788)	-	(56,771)	(18,423)	(76,982)	(196)	(77,178)
<b>Transactions with owners of the Company</b>									
Share-based payment	-	-	-	-	11	-	11	-	11
<b>As at 31 March 2018 (Unaudited)</b>	1,883,513	(53,425)	(3,690)	27,468	(154,437)	588,810	2,288,239	13,318	2,301,557
<b>As at 1 January 2019</b>	1,883,498	(53,425)	(2,571)	27,468	(146,609)	(167,583)	1,540,778	(2,454)	1,538,324
- as previously reported									
Adjustment on initial application of MFRS 16, net of tax	-	-	-	-	-	1,893	1,893	-	1,893
<b>As at 1 January 2019 (Restated)</b>	1,883,498	(53,425)	(2,571)	27,468	(146,609)	(165,690)	1,542,671	(2,454)	1,540,217
Other comprehensive expense for the period	-	-	695	-	(40,175)	-	(39,480)	(299)	(39,779)
Profit for the period	-	-	-	-	-	18,438	18,438	(3,837)	14,601
<b>Total comprehensive expense for the period</b>	-	-	695	-	(40,175)	18,438	(21,042)	(4,136)	(25,178)
<b>Transactions with owners of the Company</b>									
Change in ownership interest in a minority interest	-	-	-	-	-	-	-	(789)	(789)
Share-based payment	-	-	-	-	77	-	77	-	77
<b>As at 31 March 2019 (Unaudited)</b>	1,883,498	(53,425)	(1,876)	27,468	(186,707)	(147,252)	1,521,706	(7,379)	1,514,327

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**KNM GROUP BERHAD**

(Company No. 521348-H)

(Incorporated in Malaysia )

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED****31 March 2019**

(Unaudited)

	<b>31.03.2019</b> <b>(Unaudited)</b> <b>RM</b> <b>'000</b>	<b>31.03.2018</b> <b>(Unaudited)</b> <b>RM</b> <b>'000</b>
<b>Cash flows from operating activities</b>		
Profit/(Loss) before tax	20,419	(14,550)
Adjustments for:		
Amortisation of intangible assets	7,304	7,474
Share-based payment	77	11
Depreciation	6,860	2,520
Interest expense	15,308	13,893
Interest income	(88)	(463)
Unrealised (gain)/loss on foreign exchange	(26,375)	11,171
Share of loss in associates and joint ventures, net of tax	-	702
Change in fair value of forward contracts	792	1,682
Reversal of impairment loss on receivables	(1,748)	(767)
Reversal of provision for warranty	(3,193)	(4,000)
Reversal of provision for late delivery charges	(923)	-
Loss/(Gain) on disposal of property, plant and equipment	3	(104)
Operating profit before working capital changes	<u>18,436</u>	<u>17,569</u>
Changes in working capital:		
Inventories	29,269	8,190
Trade and other receivables	4,426	5,966
Trade and other payables	<u>(80,883)</u>	<u>(33,625)</u>
Cash used in operations	<u>(28,752)</u>	<u>(1,900)</u>
Income taxes paid	(1,023)	(3,848)
Interest paid	(96)	-
Interest received	88	463
<b>Net cash used in operating activities</b>	<u>(29,783)</u>	<u>(5,285)</u>
<b>Cash flows from investing activities</b>		
Change in pledged deposits	(693)	128
Acquisition of property, plant and equipment	(2,818)	(2,906)
Acquisition of subsidiaries, net of cash outflow	1,557	-
Proceeds from disposal of property, plant and equipment	77	4,609
<b>Net cash (used in)/generated from investing activities</b>	<u>(1,877)</u>	<u>1,831</u>
<b>Cash flows from financing activities</b>		
Net repayment of bills payable	(110,636)	(82,323)
Repayment of finance lease liabilities	(1,531)	(3,462)
Drawdown of term loans and revolving credits	51,239	90,921
Interest paid	<u>(15,045)</u>	<u>(13,893)</u>
<b>Net cash used in financing activities</b>	<u>(75,973)</u>	<u>(8,757)</u>
<b>Net decrease in cash and cash equivalents</b>	(107,633)	(12,211)
<b>Cash and cash equivalents at beginning of period</b>	381,043	195,587
<b>Effect of foreign currency translation</b>	16,528	(42,739)
<b>Cash and cash equivalents at end of period</b>	<u>289,938</u>	<u>140,637</u>
Cash and bank balances	292,370	181,703
Deposits with licensed banks	29,275	21,403
Less: Pledged deposits	<u>(26,706)</u>	<u>(21,403)</u>
	294,939	181,703
Bank overdraft	<u>(5,001)</u>	<u>(41,066)</u>
	<u>289,938</u>	<u>140,637</u>

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

## Notes to the Quarterly Interim Financial Report – 31 March 2019

### 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 financial year ended 31 December 2018. 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 financial year ended 31 December 2018.

#### A2. Significant Accounting Policies

The audited financial statements of the Group for the financial year ended 31 December 2018 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 financial year ended 31 December 2018 except for the adoption of new MFRSs and amendments that are mandatory for the Group for the financial year with effect from 1 January 2019:

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

The initial application of the abovementioned accounting standards, interpretations or amendments is not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Company except as mentioned below:

##### **MFRS 16, *Leases***

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments.

There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

MFRS 16 has been adopted by the Group as at 1 January 2019 using the modified retrospective method of adoption which measures the lease liabilities based on the present value of future lease payments calculated using the incremental borrowing rate and exchange rate at date of transition. Lease payments would be split into principal and interest payments, using the effective interest method. Correspondingly, the right-of-use ("ROU") assets will be the present value of the liability at the commencement date of the lease, adding any directly attributable costs. The ROU asset will be depreciated on a straight-line basis over the shorter of the lease term and useful life of the leased asset. As the modified retrospective method of adoption is applied, comparative figures are not restated.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying MFRS 117 and IFRIC 4 at the date of initial application.

The adoption of MFRS 16 have the following impact on the unaudited consolidated financial statements on 1 January 2019 and for the period ended 31 March 2019 as shown below:

<b>Group</b>	<b>Audited 31.12.2018 RM'000</b>	<b>Impact of MFRS 16 Adoption RM'000</b>	<b>Restated 31.12.2018 RM'000</b>
Right of use assets	-	8,956	8,956
Lease liabilities – Current	-	(1,571)	(1,571)
Lease liabilities – Non-current	-	(5,492)	(5,492)
Accumulated losses	167,583	(1,893)	165,690

  

<b>Group</b>	<b>Unaudited 31.03.2019 RM'000</b>	<b>Impact of MFRS 16 Adoption RM'000</b>	<b>Unaudited 31.03.2019 with adoption of MFRS 16 RM'000</b>
Right of use assets	-	8,407	8,407
Lease liabilities – Current	-	(1,571)	(1,571)
Lease liabilities – Non-current	-	(5,110)	(5,110)
Depreciation	6,310	550	6,860
Operating lease	1,190	(550)	640
Finance costs	15,141	167	15,308

The following are accounting standards, amendments and interpretations of the MFRS that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group:

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020**

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021**

- MFRS 17, *Insurance Contracts*

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed**

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company plan to apply the abovementioned accounting standards, amendments and interpretations in the respective financial years when the abovementioned accounting standards, interpretation and amendments become effective, where applicable.

**A3. Qualification of annual financial statements**

There was no audit qualification in the annual financial statements of the Group for the financial year ended 31 December 2018.

**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 amounts reported in the current quarter.

**A7. 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 of 23,341,275 of its issued share capital from the open market. The average price paid for the shares repurchased was RM2.29 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 127 of the Companies Act 2016.

**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</b>	<b>Gross Profit</b>	<b>EBITDA/ (LBITDA)</b>
	<b>3 months ended 31.03.2019</b>	<b>3 months ended 31.03.2019</b>	<b>3 months ended 31.03.2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Asia & Oceania	80,824	4,546	9,681
Europe	279,898	56,290	50,226
Americas	2,657	267	(220)
	<b>363,379</b>	<b>61,103</b>	<b>59,687</b>

	<b>Revenue</b>	<b>Gross Profit</b>	<b>EBITDA/ (LBITDA)</b>
	<b>3 months ended 31.03.2018</b>	<b>3 months ended 31.03.2018</b>	<b>3 months ended 31.03.2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Asia & Oceania	85,355	1,848	1,925
Europe	251,468	44,574	26,097
Americas	936	931	(2,335)
	<b>337,759</b>	<b>47,353</b>	<b>25,687</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 financial year ended 31 December 2018.

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

As at to-date, the following are the updates for the composition of the Group:-

- A. The Company had on 14 January 2019 entered into a Share Purchase Agreement with Petrosab Sdn. Bhd. ("PSB") to acquire the remaining balance of 6,048,884 ordinary shares or 99.34% equity interest in Petrosab Petroleum Sdn. Bhd. ("PPSB") for a cash consideration of RM1.00 only ("the Acquisition"). The Acquisition had since been completed and PPSB has become a wholly-owned subsidiary of the Company.



- B. On 20 March 2019, KNM BORSIG Services Sdn. Bhd. (“KBS”), an indirect wholly-owned subsidiary of the Company had disposed of its 40,000 shares or 40% equity interest in an associate, Dimensi Bumijaya Sdn. Bhd. (“DBSB”), to a third party for a cash consideration of RM1.00 only. The disposal had since been completed and DBSB has ceased to be an associate company of KBS and the Company.
- C. On 26 April 2019, KNM International Sdn. Bhd., a wholly-owned subsidiary of the Company had incorporated a subsidiary, KNM Project (Myanmar) Co., Ltd. in Myanmar with an issue and paid-up capital of USD20,000.
- D. On 9 May 2019, KMK Power Sdn. Bhd., an indirect wholly-owned subsidiary of the Company had incorporated a subsidiary, KMK Green Ventures Sdn. Bhd. under Companies Act 2016 of Malaysia with an issue and paid-up share capital of RM100.00.

### A13. Contingent liabilities and Assets

The contingent liabilities for the Group as at the date of this announcement were :-

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Guarantees and contingencies relating to borrowings and performance obligation of subsidiaries	738,429	751,602
Share of joint ventures' contingent liabilities incurred jointly with other investors		
- Secured guaranteed bank facilities and unsecured performance obligation of joint ventures	14,956	15,555

There were no other material changes in the contingent liabilities.

There were no material contingent assets for the Group.

### A14. Capital commitments

	<b>Contracted but not provided for RM'000</b>
Property, plant and equipment	2,031,199

### A15. Related party transactions

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

	<b>RM'000</b>
Inter Merger Sdn. Bhd. (a)	
- Office rental, administrative expense and other support services	269

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

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

### **B1. Performance of 3-month ended 31 March 2019 against 31 March 2018**

The Group recorded a higher revenue of approximately RM363.38 million in the current quarter as compared with RM337.76 million achieved in the corresponding quarter of 2018. The higher revenue in the current quarter was mainly contributed by improved performance of Europe Segment with more new orders secured in the second half of year 2018. As a result, the Group registered a higher gross profit of RM61.10 million in the current quarter as compared with RM47.35 million in the corresponding quarter of the previous financial year.

The Group recorded a higher Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) of approximately RM59.69 million in the current quarter as compared with RM25.69 million in the corresponding quarter of the previous financial year due to higher gross profit margins and lower operating and administration expense of the Group resulting from a leaner operations and unrealised gain on foreign exchange.

Consequently, the Group posted a profit after tax of RM14.60 million in the current quarter as compared with a loss after tax of RM18.87 million in the corresponding quarter of the previous financial year.

#### Asia & Oceania Segment

Asia & Oceania Segment recorded a slightly lower revenue contribution mainly attributable to the lower project-based revenue recognised from orders secured in 2018, as most of the major new orders are secured in the current quarter.

This Segment recorded an improved gross profit of approximately RM4.55 million and EBITDA of approximately RM9.68 million in the current quarter as compared with gross profit of RM1.85 million and EBITDA of RM1.93 million in the corresponding quarter of the previous financial year, mainly due to a lower operating expense resulting from cost control measures and an unrealised gain on foreign exchange.

#### Europe Segment

The Europe Segment recorded a higher revenue of approximately RM279.90 million in current quarter as compared with RM251.47 million in the corresponding quarter of the previous financial year mainly due to improved gross profit margins and higher new orders secured particularly in the second half of year 2018 on the back of the improvement in the petrochemical industries.

Consequently, this Segment recorded a higher EBITDA of approximately RM50.23 million in current quarter as compared with EBITDA of RM26.10 million in the corresponding quarter of the previous financial year.

#### America Segment

The business activities in this segment are still low despite a higher revenue recorded in the current quarter as compared with the same period of the previous financial year.

The America Segment registered a loss mainly due to unabsorbed fixed overhead and depreciation charge on land and buildings.

**B2. Performance of the current quarter against the preceding quarter (1<sup>st</sup> Quarter 2019 versus 4<sup>th</sup> Quarter 2018)**

The Group's revenue generated from its project-based and recurring revenues have been steady with a revenue of approximately RM363.38 million in the current quarter as compared with RM367.08 million in the preceding quarter.

The Group posted a gross profit of approximately RM61.10 million in the current quarter as compared with a gross loss of approximately RM41.39 million of which the Group had accounted for additional project costs to complete in Asia Segment in the preceding quarter.

The Group reported a profit before tax of RM20.42 million as compared to a loss before tax of RM354.17 million in preceding quarter, mainly due to one-off impairment loss made to write down the assets held by the non-performing business units of the Group in the preceding quarter.

**B3. Prospects**

The Board anticipates the outlook for financial year ending 31 December 2019 will remain challenging due to the intensified trade war between China and US, and its consequent effects on the global economy.

The Group's strategy to diversify its sources of income from project-based contracts to recurring-income businesses in renewable energy industry is still on going.

**B4. Profit forecast**

Not applicable as no profit forecast was given.

**B5. Tax expense**

	<b>3 Months ended 31.03.2019 RM'000</b>	<b>3 Months ended 31.03.2018 RM'000</b>
Current	(4,248)	(5,067)
Prior period	1	(501)
Deferred tax	(1,571)	1,253
	<u>(5,818)</u>	<u>(4,315)</u>

The Group's effective tax rate for the financial period is higher than statutory tax rate mainly due to non-deductible expenses and no deferred tax assets have been recognised on tax losses subsidiaries.

**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 19 June 2015, Splendid Investments Limited (“Splendid”, as the "Issuer"), a wholly-owned subsidiary of KNM Group Berhad (“KNM”, as the “Guarantor”), had established a multicurrency medium term note (“MTN”) programme of an initial size of up to SGD300 million (the "Programme"). The Programme is unconditionally and irrevocably guaranteed by KNM and as at to-date, no notes have been issued by the Issuer under the Programme.
- On 18 April 2019, the Company announced to undertake a private placement of up to 234,609,500 new ordinary shares (“Proposed Private Placement”). The issue price of each tranche of the private placement shares, where applicable, shall be determined separately and fixed by the Board of Directors at a later date after obtaining the relevant approvals required for the Proposed Private Placement. The Proposed Private Placement is expected to be completed by the second quarter of financial year 2019.

Bursa Malaysia Securities Berhad had, vide its letter dated 24 April 2019, approved the listing of and quotation of up to 234,609,500 placement shares to be issued pursuant to the Proposed Private Placement.

## B9. Group borrowings and debt securities

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

	<b>As at 31.03.2019 RM'000</b>
<b>Short term:</b>	
Borrowings (secured)	70,096
Borrowings (unsecured)	57,495
Bank Overdraft	5,001
Bills Payable	45,195
Hire Purchase	3,839
Revolving credits	207,083
	<u>388,709</u>
<b>Long term :</b>	
Borrowings (secured)	147,928
Borrowings (unsecured)	755,715
Hire Purchase	12,716
Revolving credits	87,756
	<u>1,004,115</u>
	<u>1,392,824</u>

The above are also inclusive of other borrowings in foreign currency of RMB40.00 million, EURO 108.03 million, CAD6.21 million, USD69.81 million, THB2.96 billion, and AED19.28 million.

The exchange rates used are 1 RMB = RM0.6082, 1 EURO = RM4.5798, 1 CAD = RM3.0590, 1 USD = RM4.0825, 1 THB = RM0.1287, and 1 AED = RM1.1114.

## B10. Financial Instruments

The outstanding forward foreign currency exchange contracts as at 31 March 2019 were as follows:-

Type of Derivative	Contract/Notional value RM'000	Gain on Fair value changes RM'000
Foreign Exchange Contracts		
-Less than 1 year	84,520	3,645
	84,520	3,645

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/(LOSS) FOR THE PERIOD**

	3 Months ended 31.03.2019 RM'000	3 Months ended 31.03.2018 RM'000
(a)		
Profit/(Loss) for the period is arrived at after charging:		
Reversal of impairment loss on receivables	(1,748)	(767)
Change in fair value of forward contracts	792	1,682
Amortisation of intangible assets	7,304	7,474
Reversal of provision for warranty	(3,193)	(4,000)
Reversal of provision for late delivery charges	(923)	-
Loss/(Gain) on disposal of property, plant and equipment	3	(104)
Share-based payment	77	11
And crediting:		
Interest income	88	463
(b)		
Interest expense	15,308	13,893
(c)		
Depreciation charge for the period is allocated as follow:		
Income statement	6,860	2,520
Construction work in progress	9,354	15,524
	16,214	18,044

**B12. Material litigation**

On 11 March 2019, a subsidiary, KNM Process Systems Sdn. Bhd. (“Claimant”) had issued and submitted a Request for Arbitration (the “Request”) against Lukoil Uzbekistan Operating Company LLC (“Respondent”) with the Institute of the Stockholm Chamber of Commerce, in Sweden.

The Request concerns a dispute arising from a contract entered into with the Respondent on 3 December 2010.

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

**B13. Dividend payable**

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

**B14. Profit/(Loss) per share**

	Individual Quarter		Cumulative Quarter	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
<b>Basic loss per share</b>				
Net profit/(loss) attributable to shareholders (RM'000)	18,438	(18,423)	18,438	(18,423)
Number of shares at the beginning of the year ('000)	2,175,420	2,175,420	2,175,420	2,175,420
Issuance of share-Private Placement ('000)	194,017	194,017	194,017	194,017
Effect of Share buy-back ('000)	(23,341)	(23,341)	(23,341)	(23,341)
Weighted average number of shares ('000)	<u>2,346,096</u>	<u>2,346,096</u>	<u>2,346,096</u>	<u>2,346,096</u>
Basic profit/(loss) per share (sen)	0.79	(0.79)	0.79	(0.79)

**B15. Authorisation for issue**

The interim financial report was authorised for issue by the Board of Directors on 23 May 2019.