

KNM GROUP BERHAD

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

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

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Individual Quarter | | Cumulative Year to date | |
|--|--|--|----------------------------------|----------------------------------|
| | Unaudited 3 months ended 30.9.2012 RM'000 | Unaudited 3 months ended 30.9.2011 RM'000 | Unaudited 30.9.2012 RM'000 | Unaudited 30.9.2011 RM'000 |
| Contract revenue | <u>609,497</u> | <u>445,185</u> | <u>1,782,024</u> | <u>1,402,485</u> |
| Operating profit /(loss) | 34,835 | (133,259) | 97,860 | (101,649) |
| Financing costs | (13,080) | (13,056) | (39,102) | (38,968) |
| Interest income | 320 | 947 | 1,434 | 2,830 |
| Share of (loss)/profit of equity accounted investees, net of tax | 804 | 427 | 396 | 920 |
| Profit/(Loss) before tax | <u>22,879</u> | <u>(144,941)</u> | <u>60,588</u> | <u>(136,867)</u> |
| Tax expense | 18,859 | 28,942 | 50,621 | 49,832 |
| Net profit/(loss) for the period | <u>41,738</u> | <u>(115,999)</u> | <u>111,209</u> | <u>(87,035)</u> |
| Other comprehensive (loss)/ income, net of tax | | | | |
| Foreign currency translation differences | (20,497) | (34,959) | (32,235) | 53,319 |
| Net investment in subsidiaries | (39,651) | 11,689 | (64,667) | 40,065 |
| Cash Flow hedge | 1,320 | 1,038 | 4,403 | 4,326 |
| Share of other comprehensive (loss)/ income of equity accounted investee | (393) | 179 | (110) | 179 |
| Other comprehensive (loss)/ income for the period, net of tax | <u>(59,221)</u> | <u>(22,053)</u> | <u>(92,609)</u> | <u>97,889</u> |
| Total comprehensive (loss)/ income for the period | <u>(17,483)</u> | <u>(138,052)</u> | <u>18,600</u> | <u>10,854</u> |
| Attributable to: | | | | |
| Equity holders of the parent | 44,117 | (116,295) | 113,011 | (86,424) |
| Minority interest | <u>(2,379)</u> | <u>296</u> | <u>(1,802)</u> | <u>(611)</u> |
| | <u>41,738</u> | <u>(115,999)</u> | <u>111,209</u> | <u>(87,035)</u> |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the parent | (14,156) | (136,494) | 21,423 | 12,951 |
| Minority interest | <u>(3,327)</u> | <u>(1,558)</u> | <u>(2,823)</u> | <u>(2,097)</u> |
| Total comprehensive (loss)/ income for the period | <u>(17,483)</u> | <u>(138,052)</u> | <u>18,600</u> | <u>10,854</u> |
| Earnings per share: | | | | |
| - Basic (sen) | 4.51 | (11.88) | 11.56 | (8.83) |

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2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | NOTE | Unaudited As at 30.9.2012 | Audited As at 31.12.2011 |
|--|------|---------------------------------|--------------------------------|
| | | RM'000 | RM'000 |
| Assets | | | |
| Non-current assets | | | |
| Intangible Assets | | 548,056 | 594,641 |
| Goodwill | | 762,639 | 798,507 |
| Property, plant and equipment | | 710,133 | 744,824 |
| Other investment, including derivative | | 14,007 | 14,088 |
| Investments in associates | | 41 | 45 |
| Investments in jointly-controlled entities | | 7,940 | 5,882 |
| Deferred Tax Asset | | 341,942 | 279,922 |
| | | <u>2,384,758</u> | <u>2,437,909</u> |
| Current assets | | | |
| Inventories | | 72,850 | 72,120 |
| Contracts work in progress | | 506,705 | 450,390 |
| Trade and other receivables | | 701,249 | 555,021 |
| Cash and cash equivalents | | 127,445 | 416,429 |
| | | <u>1,408,249</u> | <u>1,493,960</u> |
| TOTAL ASSETS | | <u>3,793,007</u> | <u>3,931,869</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | | 1,001,093 | 1,001,093 |
| Treasury Shares | | (53,380) | (53,371) |
| Reserves | | 678,380 | 657,333 |
| | | <u>1,626,093</u> | <u>1,605,055</u> |
| Non-controlling interests | | 4,199 | 7,021 |
| Total Equity | | <u>1,630,292</u> | <u>1,612,076</u> |
| Non-current liabilities | | | |
| Long term payable | | 21,614 | 20,702 |
| Long service leave liability | | 1,711 | 2,366 |
| Loans and borrowings | B9 | 210,967 | 366,390 |
| Deferred taxation | | 225,874 | 238,042 |
| | | <u>460,166</u> | <u>627,500</u> |
| Current liabilities | | | |
| Payables and accruals | | 644,888 | 518,164 |
| Deferred income | | 310,981 | 390,160 |
| Loans and borrowings | B9 | 740,590 | 777,894 |
| Current tax liabilities | | 6,090 | 6,075 |
| | | <u>1,702,549</u> | <u>1,692,293</u> |
| Total liabilities | | <u>2,162,715</u> | <u>2,319,793</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>3,793,007</u> | <u>3,931,869</u> |
| Net assets per share attributable to equity holders of the parent (RM) | | <u>1.62</u> | <u>1.60</u> |

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

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

| | | | ← Attributable to equity holders of the parent Non-Distributable → | | | | → Distributable Reserve | | Minority Interest RM'000 | Total equity RM'000 |
|---|-------------------------|--------------------------|---|---------------------------|-----------------------|---|---------------------------|-----------------|-----------------------------|------------------------|
| | Share Capital RM'000 | Treasury Share RM'000 | Share Premium RM'000 | Hedging Reserve RM'000 | AFS Reserve RM'000 | Revaluation and Other Reserve RM'000 | Retained Profit RM'000 | Total RM'000 | | |
| As at 1 January 2011 | 1,001,093 | (44,588) | 319,426 | (1,513) | 30 | (486,835) | 930,828 | 1,718,441 | 12,328 | 1,730,769 |
| Total comprehensive income for the period | - | - | - | 4,326 | - | 95,049 | (86,424) | 12,951 | (2,097) | 10,854 |
| Transaction with owners in their capacity as owner | | | | | | | | | | |
| Increase in share capital in subsidiaries | - | - | - | - | - | - | - | - | - | - |
| 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 30 SEPTEMBER 2011 (Unaudited) | 1,001,093 | (53,371) | 319,426 | 2,813 | 30 | (391,786) | 815,061 | 1,693,266 | 10,231 | 1,703,497 |
| As at 1 January 2012 | 1,001,093 | (53,371) | 319,426 | (5,172) | 30 | (466,670) | 809,719 | 1,605,055 | 7,021 | 1,612,076 |
| Total comprehensive (loss)/ income for the period | - | - | - | 4,403 | - | (95,991) | 113,011 | 21,423 | (2,823) | 18,600 |
| Transaction with owners in their capacity as owner | | | | | | | | | | |
| Acquisition of equity interest in subsidiary | - | - | - | - | - | - | - | - | 1 | 1 |
| Increase in share capital of subsidiaries | - | - | - | - | - | - | - | - | - | - |
| Share Buy Back | - | (9) | - | - | - | - | - | (9) | - | (9) |
| Share Issue expenses | - | - | (376) | - | - | - | - | (376) | - | (376) |
| Dividend | - | - | - | - | - | - | - | - | - | - |
| As at 30 SEPTEMBER 2012 (Unaudited) | 1,001,093 | (53,380) | 319,050 | (769) | 30 | (562,661) | 922,730 | 1,626,093 | 4,199 | 1,630,292 |

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

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED
 30 SEPTEMBER 2012**

(Unaudited)

| | 30.9.2012 | 30.9.2011 |
|--|-----------------------|-----------------------|
| | RM | RM |
| | '000 | '000 |
| Cash flows from operating activities | | |
| Profit/(Loss) before tax | 60,588 | (136,867) |
| Adjustments for: | | |
| Amortisation of intangible assets | 24,325 | 25,105 |
| Depreciation | 4,934 | 5,278 |
| Interest expense | 37,171 | 37,235 |
| Interest income | (1,434) | (2,830) |
| Gain on foreign exchange-unrealised | (10,684) | (5,258) |
| Loss/(Gain) on disposal of property, plant and equipment | 33 | (26) |
| Share of (profit)/ loss of in associates and jointly-controlled entities | (396) | (920) |
| Change in fair value of forward contract | 7,214 | 10,732 |
| Provision for foreseeable losses | (28,586) | 63,533 |
| Goodwill written off | - | - |
| Operating profit before working capital changes | <u>93,165</u> | <u>(4,018)</u> |
| (Increase)/Decrease in working capital: | | |
| Inventories | (730) | (3,434) |
| Receivables, deposits and prepayments | (126,701) | (45,000) |
| Payables and accruals and long service leave liability | 53,000 | 286,700 |
| Cash used in operations | | |
| Income taxes paid | (33,006) | 2,830 |
| Interest paid | (2,572) | (12,459) |
| Interest received | 1,434 | (250) |
| Net cash (used) / generated from operating activities | <u>(15,410)</u> | <u>224,369</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (42,590) | (43,460) |
| Acquisition of minority interest | 1 | - |
| Acquisition of investment in Joint-controlled entity | (2,100) | - |
| Acquisition of other intangible assets | (2,546) | (3,072) |
| Proceeds from disposal of property, plant and equipment | 1,374 | 349 |
| Net cash used in investing activities | <u>(45,861)</u> | <u>(46,183)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of shares | - | - |
| Share buy back | (9) | (8,783) |
| Net (repayment)/proceeds from bill payable | (85,820) | 85,436 |
| (Repayment)/ Proceeds of hire purchase liabilities | (2,788) | 1,265 |
| Net (repayment)/proceeds from term loan | (53,076) | 4,159 |
| Net proceeds/(repayment) to ICP/IMTN | (40,000) | (75,000) |
| Interest expenses | (34,599) | (36,985) |
| Dividend paid | - | (29,343) |
| Share issue expenses | (376) | - |
| Net cash used in financing activities | <u>(216,668)</u> | <u>(59,251)</u> |
| Net (decrease)/ increase in cash and cash equivalents | (277,939) | 118,935 |
| Cash and cash equivalents at beginning of period | 399,167 | 286,532 |
| Cash and cash equivalents at end of period | <u><u>121,228</u></u> | <u><u>405,467</u></u> |
| | | |
| Cash & bank balances | 104,969 | 299,440 |
| Deposits with financial institutions | - | 53,987 |
| Deposits with licensed banks | <u>22,476</u> | <u>59,364</u> |
| | 127,445 | 412,791 |
| Bank overdraft | <u>(6,217)</u> | <u>(7,324)</u> |
| | <u><u>121,228</u></u> | <u><u>405,467</u></u> |

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

Notes to the quarterly Interim Financial Report – 30 September 2012

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

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

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

A2. Significant Accounting Policies

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

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

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

A3. Qualification of annual financial statements

There 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 period to date.

A6. Material changes in estimates

There were no material changes in estimates of amount reported in the current quarter.

A7. Issuances and repayment of debt and equity securities

A. There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period to date other than those stated below:

| | |
|--|-----------------------|
| | RM'000 |
| Opening Balance of ICP/IMTN outstanding as at 1 January 2012 | 190,000 |
| ICP/IMTN Drawdown/(Repayment) | <u>(40,000)</u> |
| Balance of ICP/IMTN outstanding as at 30 September 2012 | <u><u>150,000</u></u> |

As at 30 September 2012, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") is RM150.0 million out of the limit of RM190.0 million, mainly used for repayment of bank borrowings and working capital. Under the program, up to RM150 million is fully underwritten by Malayan Banking Berhad & AMInvestment Bank Berhad and has a tenure of 7-years from the date of issuance.

B. As at the date of this report, the Company has repurchased a total 23,251,275 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM2.30 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares and treated in accordance with the requirement of Section 67A of the Companies Act 1965.

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A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Geographical segments:

| | Revenue 9 months ended 30.9.2012 RM'000 | Gross Profit 9 months ended 30.9.2012 RM'000 | EBITDA 9 months ended 30.9.2012 RM'000 |
|----------------|---|--|--|
| Asia & Oceania | 675,646 | 108,984 | 56,630 |
| Europe | 1,045,916 | 194,383 | 131,634 |
| Americas | 60,462 | 1,598 | (20,193) |
| Total | 1,782,024 | 304,965 | 168,071 |

| | Revenue 9 months ended 30.9.2011 RM'000 | Gross Profit 9 months ended 30.9.2011 RM'000 | EBITDA 9 months ended 30.9.2011 RM'000 |
|----------------|---|--|--|
| Asia & Oceania | 415,520 | (552) | (101,653) |
| Europe | 932,097 | 163,325 | 104,451 |
| Americas | 54,868 | (17,772) | (34,879) |
| Total | 1,402,485 | 145,001 | (32,081) |

A10. Valuation of property, plant and equipment

Property, plant and equipment of the Group are stated at cost/valuation less accumulated depreciation and accumulated impairment losses where applicable.

There is no revaluation of property, plant and equipment during the period under review.

A11. Material events subsequent to the end of the interim period

There was no material event subsequent to the end of the reporting period and up to the date of issuance of this report.

A12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial period to date except as follows:-

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

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

(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 cost of investment is approximately GBP26.0 million (approximately RM127.5 million)-

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 | 54,254 | 47,469 |
| Investment | 113,456 | 4,609 |
| | 167,710 | 52,078 |

A15. Related party transactions

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

| | RM '000 |
|--|---------|
| Inter Merger Sdn Bhd (a) | |
| - Office rental, related charges and administrative expense | 1,484 |
| I.M.Bina Sdn Bhd (b) | |
| -General construction and civil works | 4,262 |
| IMT O&G Solutions Sdn Bhd (c) | |
| -Supply of production materials and fixed assets | 10 |
| Tofield Realty Development Corporation (d) | |
| - General and civil contractor and provider of staff accommodation | 373 |
| Nassir Hazza (e) | |
| - General construction, civil and related mechanical and engineering work | - |
| KPS Technology & Engineering LLC(f) | |
| -Provision/Receipt of mechanical and engineering, general administrative and other support services | 151 |
| -Provision/Receipt of qualifying services under the overseas head quarters (OHQ) status and other support services | |

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

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

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

(d) a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors and shareholders

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

(f) a company in which Mr. Lee Swee Eng is a substantial shareholder

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

B1. Review of performance

The Group achieved revenue of RM1.78 billion, EBITDA (Earning Before Interest, Tax, Depreciation and Amortisation) of RM168.07 million and profit after tax and minority interest of RM113.01 million for the period ended 30 September 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 turned around compared to the previous year. Efforts to strengthen profitability are on-going through various initiatives undertaken during the quarter under review, to improve cost efficiency and productivity.

Europe Segment

Europe's contribution remains positive as it continues to operate with the strong order book. Profitability improved with higher project revenue recognition and better contribution margin.

Americas Segment

Performance from the America's segment continue to be weighed down by South America with further losses arising on the back of delayed realization of new orders.

B2. Variation of results against preceding quarter

The Group's revenue of RM609.50 million for the quarter under review was higher by RM22.8 million against the immediate preceding quarter's revenue of RM586.70 million. Arising from this, profit before taxation and minority interest improved to RM22.88 million from RM21.74 million respectively.

B3. Current year prospects

The Board is cautiously optimistic of the Group's financial performance into the final quarter of the current financial year:

- With the established cost efficiency and productivity initiatives, performance of the Asia & Oceanic segment is expected to improve. Management will continue to monitor the situation closely over the coming quarters.
- The European segment profitability is expected to be sustained on the back of its strong order book into the last quarter of the year.
- While the performance of the Americas is expected to remain challenging, plans are underway to address this as opportunities in the Americas are improving.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

| | 3 months Ended 30.9.2012 RM'000 | 3 months Ended 30.9.2011 RM'000 | 9 months Ended 30.9.2012 RM'000 | 9 months Ended 30.9.2011 RM'000 |
|-----------------------|--|--|--|--|
| Income Tax expense :- | | | | |
| Current | 12,984 | 18,538 | 23,702 | 27,110 |
| Prior period | 365 | (72) | 376 | (602) |
| Deferred tax | (32,208) | (47,408) | (74,699) | (76,340) |
| | <u>(18,859)</u> | <u>(28,942)</u> | <u>(50,621)</u> | <u>(49,832)</u> |

The Group's effective tax rate is lower than the statutory tax rate mainly due to the availability of certain tax incentives.

B6. Unquoted investments and properties

The Group has not made or disposed any investments in any unquoted investments and properties for the current quarter and financial period to date.

B7. Quoted and marketable investments

There were no investments or disposals in quoted and marketable securities during the current quarter and financial period to date.

B8. Status of corporate proposals announced but not completed

- (1) On 22 October 2010, the Company announced that Securities Commission (“SC”) vide their letter dated 21 October 2010 has approved the Company’s proposed issue of Sukuk Programmes of up to RM1,500 million comprising of Islamic Commercial Paper Programme of up to RM400 million (“ICP Programme”) and Islamic Medium Term Note Programme of up to RM1,100 million (“IMTN Programmes”).

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

The ICP Programme shall have a tenure of up to 7 (seven) years and the IMTN Programme shall have a tenure of up to 15 (fifteen) years from the date of the first issuance under the Sukuk Programmes. No commercial papers or medium term notes have been issued as at to-date and approval had been granted by the Securities Commission for the Company to implement the same by 20 April 2013.

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

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

The said HOA had lapsed as announced on 16 August 2012.

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

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

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

The Proposed Acquisition was completed on 31 October 2012.

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

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

KNM had since obtained BNM's approval per BNM's letter dated 10 August 2012 and Bursa Securities' approval vide Bursa Securities' letter dated 14 August 2012. Approval from KNM's shareholders was subsequently obtained at an Extraordinary General Meeting duly held and convened on 20 September 2012.

As at 20 September 2012, the Proposed Increase In Authorised Share Capital and Proposed Amendments have been duly completed.

The Proposed Rights Issue exercise has been completed on 20 November 2012.

B9. Group borrowings and debt securities

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

| | RM'000 |
|------------------------|----------------|
| Short term: | |
| Borrowings (secured) | 154,596 |
| Borrowings (unsecured) | 32,216 |
| ICP/IMTN | 150,000 |
| Bank Overdraft | 6,217 |
| Bill Payable | 187,857 |
| Hire Purchase | 5,502 |
| Revolving credit | 204,202 |
| | <u>740,590</u> |
| | |
| Long term : | |
| Borrowings (secured) | 165,914 |
| Borrowings (unsecured) | 34,240 |
| IMTN | - |
| Hire Purchase | 10,813 |
| | <u>210,967</u> |
| | <u>951,557</u> |

The above are also inclusive of other borrowings in foreign currency of RMB21.60 million, EURO42.00 million, CAD1.95 million, and BRL3.11 million.

The exchange rates used are 1 RMB = RM 0.4864, 1 EURO = RM 3.9295, 1 CAD = RM 3.1089, and 1 BRL = RM 1.5064

B10. Financial Instruments

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

There are no off-balance sheet financial instruments.

The outstanding forward foreign currency exchange contracts as at 30 September 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 | 390,516 | 1,876 |
| -1 year to 3 years | 294,400 | (1,824) |
| - More than 3 years | - | - |
| | <u>684,916</u> | <u>52</u> |

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

Forward foreign exchange contracts are entered into with licensed banks to hedge the Group's exposure to foreign exchange risk in respect of its export sales, import purchases and other obligations by establishing the basis rate at which a foreign currency asset or liability will be settled.

These contracts are executed with credit-worthy/ reputable financial institutions and as such, credit risk and liquidity risk in respect of non-performance by counterparties to these contracts is minimal.

The fair values of the forward foreign currency exchange contracts are subject to market risk and the fair values were derived from marking to available market quoted price as of the reporting period. The fair value of the forward contracts may change in accordance to the fluctuation of the exchange rate of the underlying currency resulting in gain or loss in fair value.

The cash requirement for these derivatives will be fulfilled by future contract and other proceeds on the respective maturity date.

B11. PROFIT FOR THE PERIOD

| | 3 Months ended 30.9.2012 RM'000 | 3 Months ended 30.9.2011 RM'000 | 9 Months ended 30.9.2012 RM'000 | 9 Months ended 30.9.2011 RM'000 |
|---|--|--|--|--|
| (a) | | | | |
| Profit for the period is arrived at after charging and crediting: | | | | |
| Allowance /(Reversal) for impairment loss on doubtful debt | 231 | 723 | (4,588) | 1,783 |
| Net (Gain)/Loss on foreign exchange | (4,970) | 19,262 | (8,888) | (5,263) |
| Net Loss/(Gain) on derivative | 5,343 | 2,372 | 7,214 | 10,732 |
| Provision /(Reversal) for foreseeable losses | (114) | 65,608 | (28,586) | 63,533 |
| Impairment of asset | - | - | - | - |
| Amortisation of intangible Asset | 7,891 | 8,462 | 24,325 | 25,105 |
| Provision for/(Reversal) warranty | 2,298 | (242) | 2,048 | (1,316) |
| Late delivery charges | 245 | 3,316 | 133 | 3,316 |
| And crediting: | | | | |
| Interest income | 320 | 947 | 1,434 | 2,830 |
| (b) | | | | |
| Interest Expenses | 13,080 | 13,056 | 39,102 | 38,968 |
| (c) | | | | |
| Depreciation charge for the period: | | | | |
| Income statement | 1,669 | 1,647 | 4,934 | 5,278 |
| Construction work in progress | 13,785 | 13,220 | 40,952 | 39,185 |
| | <u>15,454</u> | <u>14,867</u> | <u>45,886</u> | <u>44,463</u> |

B12. Realised and Unrealised Profit/Losses Disclosure

| | As at 30 September 2012 | As at 31 December 2011 |
|---|--|-----------------------------------|
| | RM'000 | RM'000 |
| Total retained profit of KNM Group and its subsidiaries | | |
| - Realised | 571,704 | 323,759 |
| - Unrealised | (150,352) | 52,679 |
| Total share of retained profit / (accumulated losses) from associated companies: | | |
| - Realised | (6,084) | (293) |
| - Unrealised | 8 | (110) |
| Total share of retained profit/(accumulated losses) from jointly controlled entities: | | |
| - Realised | (1,940) | (1,126) |
| - Unrealised | (71) | 573 |
| Less: Consolidation adjustments | 509,465 | 434,237 |
| Total Group retained profits as per consolidated accounts | 922,730 | 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 is fixed for hearing on 4 February 2013.

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B14. Dividend payable

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

B15. Earnings per share

| | Individual Quarter | | Cumulative Quarter | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 30 September 2012 | 30 September 2011 | 30 September 2012 | 30 September 2011 |
| Basic earnings per share | | | | |
| Net Profit/(loss) attributable to shareholders (RM'000) | 44,117 | (116,295) | 113,011 | (86,424) |
| Number of shares at the beginning of the period ('000) | 1,001,093 | 1,001,093 | 1,001,093 | 1,001,093 |
| Effect of share consolidation | - | - | - | - |
| Effect of ESOS ('000) | - | - | - | - |
| Effect of Share Buy Back | (23,249) | (22,268) | (23,249) | (22,268) |
| Weighted average number of shares ('000) | 977,844 | 978,825 | 977,844 | 978,825 |
| Basic earnings per share (sen) | 4.51 | (11.88) | 11.56 | (8.83) |

B16. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 20 November 2012.