

# KNM GROUP BERHAD

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

## INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2019 (Unaudited)

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative year to date	
	Unaudited 3 months ended 30.06.2019 RM'000	Unaudited 3 months ended 30.06.2018 RM'000	Unaudited 30.06.2019 RM'000	Unaudited 30.06.2018 RM'000
<b>Revenue</b>	<u>375,029</u>	<u>376,753</u>	<u>738,408</u>	<u>714,512</u>
<b>Operating profit/(loss)</b>	33,318	(21,103)	69,487	(20,934)
Finance costs	(21,448)	(14,690)	(37,286)	(29,170)
Interest income	327	442	415	905
Share of gain of equity-accounted associates and joint ventures, net of tax	-	3,285	-	2,583
<b>Profit/(Loss) before tax</b>	<u>12,197</u>	<u>(32,066)</u>	<u>32,616</u>	<u>(46,616)</u>
Tax expense	(5,681)	(2,550)	(11,499)	(6,865)
<b>Net profit/(loss) for the period</b>	<u>6,516</u>	<u>(34,616)</u>	<u>21,117</u>	<u>(53,481)</u>
<b>Other comprehensive income/(expense), net of tax</b>				
Foreign currency translation differences for foreign operations	29,863	22,536	(4,565)	(43,511)
Hedge of net investment in subsidiaries	4,585	(26,002)	(1,566)	(14,929)
Cash flow hedge	914	336	1,609	(3,121)
Realisation of revaluation reserve on property, plant and equipment written off	-	-	-	-
Share of gain/(loss) of equity-accounted associates and joint ventures	1,257	(11)	1,362	107
<b>Other comprehensive income/(expense) for the period, net of tax</b>	<u>36,619</u>	<u>(3,141)</u>	<u>(3,160)</u>	<u>(61,454)</u>
<b>Total comprehensive income/(expense) for the period</b>	<u>43,135</u>	<u>(37,757)</u>	<u>17,957</u>	<u>(114,935)</u>
<b>Attributable to:</b>				
Owners of the Company	7,504	(33,644)	25,942	(52,067)
Non-controlling interests	<u>(988)</u>	<u>(972)</u>	<u>(4,825)</u>	<u>(1,414)</u>
	<u>6,516</u>	<u>(34,616)</u>	<u>21,117</u>	<u>(53,481)</u>
<b>Total comprehensive income/(expense) attributable to:</b>				
Owners of the Company	44,086	(36,449)	23,044	(113,431)
Non-controlling interests	<u>(951)</u>	<u>(1,308)</u>	<u>(5,087)</u>	<u>(1,504)</u>
<b>Total comprehensive income/(expense) for the period</b>	<u>43,135</u>	<u>(37,757)</u>	<u>17,957</u>	<u>(114,935)</u>
Profit/(Loss) per share:				
- Basic / Diluted (sen)	0.31	(1.43)	1.09	(2.22)

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

# KNM GROUP BERHAD

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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 30.06.2019 RM'000	Audited As at 31.12.2018 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Other intangible assets		438,284	456,049
Goodwill		903,950	895,461
Property, plant and equipment		1,315,380	1,294,584
Right of use assets		7,857	-
Other investments, including derivatives		252	254
Deferred tax assets		10,607	10,922
		<u>2,676,330</u>	<u>2,657,270</u>
<b>Current assets</b>			
Inventories		131,826	139,813
Contract assets		231,344	188,708
Trade and other receivables		399,005	393,293
Cash and bank balances		415,423	411,149
		<u>1,177,598</u>	<u>1,132,963</u>
Assets classified as held for sale		41,081	58,956
		<u>1,218,679</u>	<u>1,191,919</u>
<b>TOTAL ASSETS</b>		<u>3,895,009</u>	<u>3,849,189</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		1,921,034	1,883,498
Treasury shares		(53,425)	(53,425)
Reserves		(264,205)	(289,295)
		<u>1,603,404</u>	<u>1,540,778</u>
<b>Non-controlling interests</b>		<u>(8,346)</u>	<u>(2,454)</u>
<b>Total Equity</b>		<u>1,595,058</u>	<u>1,538,324</u>
<b>Non-current liabilities</b>			
Long term payables		7,971	8,051
Long service leave liability		6,488	7,851
Lease liabilities		4,721	-
Loans and borrowings	B9	1,135,481	1,047,525
Deferred tax liabilities		192,072	193,852
		<u>1,346,733</u>	<u>1,257,279</u>
<b>Current liabilities</b>			
Trade and other payables		352,039	411,229
Contract liabilities		183,519	202,876
Lease liabilities		1,571	-
Loans and borrowings	B9	401,192	423,081
Current tax liabilities		14,897	16,400
		<u>953,218</u>	<u>1,053,586</u>
<b>Total liabilities</b>		<u>2,299,951</u>	<u>2,310,865</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>3,895,009</u>	<u>3,849,189</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.68</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 30 JUNE 2019**

	← Attributable to equity holders of the parent →						Retained Earnings/ (Accumulated Losses) RM'000	Total RM'000	Non-controlling Interests RM'000	Total equity RM'000
	Share Capital RM'000	Treasury Shares RM'000	Hedging Reserve RM'000	AFS Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserves 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	-	-	(1,453)	-	-	(59,911)	-	(61,364)	(90)	(61,454)
Loss for the period	-	-	-	-	-	-	(52,067)	(52,067)	(1,414)	(53,481)
<b>Total comprehensive expense for the period</b>	-	-	(1,453)	-	-	(59,911)	(52,067)	(113,431)	(1,504)	(114,935)
<b>Transactions with owners of the Company</b>										
Share-based payment	-	-	-	-	-	23	-	23	-	23
Share issue expenses	(15)	-	-	-	-	-	-	(15)	-	(15)
<b>As at 30 June 2018 (Unaudited)</b>	1,883,498	(53,425)	(3,355)	-	27,468	(157,565)	555,166	2,251,787	12,010	2,263,797
<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
Realisation of revaluation reserve on disposal of property, plant and equipment	-	-	1,609	-	-	(4,507)	-	(2,898)	(262)	(3,160)
Profit for the period	-	-	-	-	-	(10,227)	10,227	-	-	-
	-	-	-	-	-	-	25,942	25,942	(4,825)	21,117
<b>Total comprehensive income/(expense) for the period</b>	-	-	1,609	-	-	(14,734)	36,169	23,044	(5,087)	17,957
<b>Transactions with owners of the Company</b>										
Change in ownership interest in a minority interest	-	-	-	-	-	-	-	-	(805)	(805)
Share-based payment	-	-	-	-	-	153	-	153	-	153
Issuance arising from private placement	37,536	-	-	-	-	-	-	37,536	-	37,536
<b>As at 30 June 2019 (Unaudited)</b>	1,921,034	(53,425)	(962)	-	27,468	(161,190)	(129,521)	1,603,404	(8,346)	1,595,058

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**KNM GROUP BERHAD**

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED****30 June 2019****(Unaudited)**

	<b>30.06.2019</b>	<b>30.06.2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RM</b>	<b>RM</b>
	<b>'000</b>	<b>'000</b>
<b>Cash flows from operating activities</b>		
Profit/(Loss) before tax	32,616	(46,616)
Adjustments for:		
Amortisation of intangible assets	14,537	14,722
Share-based payment	153	23
Depreciation	13,832	10,941
Interest expense	36,027	27,702
Interest income	(415)	(905)
Unrealised (gain)/loss on foreign exchange	(13,372)	6,692
Share of loss in associates and joint ventures, net of tax	-	(2,583)
Change in fair value of forward contracts	(194)	(1,001)
Reversal of impairment loss on receivables	(4,663)	(1,810)
Bad debts written off	-	3,586
Reversal of provision for warranty	(8,790)	(4,462)
Reversal of impairment loss on property, plant and equipment	-	(9,600)
Reversal of provision for late delivery charges	(795)	-
(Gain)/Loss on disposal of property, plant and equipment	(4,666)	5,134
Operating profit before working capital changes	<u>64,270</u>	<u>1,823</u>
Changes in working capital:		
Inventories	7,617	7,192
Trade and other receivables	(6,948)	(24,703)
Trade and other payables	(112,047)	7,112
Cash used in operations	<u>(47,108)</u>	<u>(8,576)</u>
Income taxes paid	(3,196)	(10,886)
Interest paid	(172)	(163)
Interest received	415	905
<b>Net cash used in operating activities</b>	<u>(50,061)</u>	<u>(18,720)</u>
<b>Cash flows from investing activities</b>		
Change in pledged deposits	(22,219)	271
Acquisition of property, plant and equipment	(17,480)	(6,836)
Acquisition of subsidiaries, net of cash outflow	1,557	-
Acquisition of other intangible assets	-	(2)
Proceeds from disposal of property, plant and equipment	681	6,760
<b>Net cash (used in)/generated from investing activities</b>	<u>(37,461)</u>	<u>193</u>
<b>Cash flows from financing activities</b>		
Net repayment of bills payable	(111,278)	(68,910)
Repayment of finance lease liabilities	(2,712)	(5,313)
Drawdown of term loans and revolving credits	201,502	208,517
Interest paid	(36,027)	(27,539)
Proceeds from issuance of shares	37,536	-
Share issue expenses	-	(15)
<b>Net cash generated from financing activities</b>	<u>89,021</u>	<u>106,740</u>
<b>Net increase in cash and cash equivalents</b>	1,499	88,213
<b>Cash and cash equivalents at beginning of period</b>	381,043	195,587
<b>Effect of foreign currency translation</b>	(15,352)	(3,588)
<b>Cash and cash equivalents at end of period</b>	<u>367,190</u>	<u>280,212</u>
Cash and bank balances	320,509	284,550
Deposits with licensed banks	94,914	21,259
Less: Pledged deposits	(48,233)	(21,259)
	<u>367,190</u>	<u>284,550</u>
Bank overdraft	-	(4,338)
	<u>367,190</u>	<u>280,212</u>

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## Notes to the Quarterly Interim Financial Report – 30 June 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 30 June 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 30.06.2019 RM'000</b>	<b>Impact of MFRS 16 Adoption RM'000</b>	<b>Unaudited 30.06.2019 with adoption of MFRS 16 RM'000</b>
Right of use assets	-	7,857	7,857
Lease liabilities – Current	-	(1,571)	(1,571)
Lease liabilities – Non-current	-	(4,721)	(4,721)
Depreciation	12,733	1,099	13,832
Operating lease	1,783	(1,099)	684
Finance costs	35,700	327	36,027

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. The Company had on 19 June 2019 obtained its shareholders' approval for the Share Buy Back exercise and thus far, there were no repurchase of shares conducted for the current financial period to-date.

As at the date of this report, generally 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.

- b. On 18 April 2019, the Company announced to undertake a private placement of up to 234,609,500 new ordinary shares ("Proposed Private Placement") and 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.

The private Placement was completed on 3 June 2019 and the exact total placement shares issued were 234,600,000 and fixed at RM0.16 per placement shares.

- c. On 24 July 2019 and 20 August 2019, the Company had announced the additional listing of 1,110,000 and 256,200 shares respectively pursuant to the Company's Employees Share Option Scheme ("ESOS"), and the said ESOS shares have been allotted to the eligible employees on 23 July 2019 and 16 August 2019 respectively.

#### 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>6 months ended 30.06.2019</b>	<b>6 months ended 30.06.2019</b>	<b>6 months ended 30.06.2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Asia & Oceania	153,450	15,527	15,702
Europe	580,287	110,231	100,694
Americas	4,671	239	(331)
	738,408	125,997	116,065

	<b>Revenue</b>	<b>Gross Profit/ (Loss)</b>	<b>EBITDA/ (LBITDA)</b>
	<b>6 months ended 30.06.2018</b>	<b>6 months ended 30.06.2018</b>	<b>6 months ended 30.06.2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Asia & Oceania	156,058	2,762	(27,390)
Europe	556,272	103,826	58,935
Americas	2,182	(77)	(3,040)
	714,512	106,511	28,505

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

Valuation of freehold lands of the Group has 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.

The next valuation is expected to be concluded by the financial year ending 31 December 2019.



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

On 28 August 2019, the Company announced that its indirect wholly-owned subsidiaries, Borsig GmbH and Borsig ZM Compression GmbH (“BZM”) had on 27 August 2019 entered into a Sale and Purchase Agreement (“SPA”) with Borsig ZM Schweiz AG and Iskra-Neftegaz Compressor Limited Liability Company for the disposal of its entire equity interests comprising one (1) ordinary share of EUR24,000 and one (1) ordinary share of EUR1,000 held in BZM for a cash consideration of EUR28 million (equivalent to approximately RM130.76 million based on the exchange rate of EUR1.00 : RM4.67) (hereinafter referred to as the “Proposed Disposal”).

Upon completion of the Proposed Disposal, BZM will cease to be a subsidiary company of Borsig GmbH and an indirect wholly-owned subsidiary of KNM Group Berhad.

Save for the above, there were no other material events 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**

Please refer to Note A11 above.

Save for the above, there were no other changes in the composition of the Group since the last update in the Q1 2019 results.

#### **A13. Contingent liabilities and Assets**

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

	<b>30.06.2019</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	696,294	751,602
Share of joint ventures' contingent liabilities incurred jointly with other investors		
- Secured guaranteed bank facilities and unsecured performance obligation of joint ventures	26,105	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	1,096,533

**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, administrative expense and other support services	542

(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 6-month ended 30 June 2019 against 30 June 2018**

The Group recorded a higher revenue of approximately RM738.41 million in the six-month ended 30 June 2019 as compared with RM714.51 million achieved in the corresponding period of 2018. The higher revenue in the current period was mainly contributed by improved performance of Europe Segment with more new orders secured since the second half of year 2018. As a result, the Group registered a higher gross profit of RM126.00 million in the current period as compared with RM106.51 million in the corresponding period of the previous financial year.

The Group recorded a higher Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) of approximately RM116.07 million in the current period as compared with RM28.51 million in the corresponding period of the previous financial year due to improved gross profit margins and reductions in operating and administration expenses of the Group.

Consequently, the Group posted a profit after tax of RM21.12 million in the current period as compared with a loss after tax of RM53.48 million in the corresponding period of the previous financial year.

#### Asia & Oceania Segment

Revenue for Asia & Oceania Segment recorded at approximately RM153.45 million in the current period as compared with RM156.06 million in the corresponding period of previous financial year.

This Segment recorded an improved gross profit and EBITDA of approximately RM15.53 million and RM15.70 million respectively in the current period as compared with a gross profit of approximately RM2.76 million and a Loss Before Interest, Tax, Depreciation and Amortisation of approximately RM27.39 million in the corresponding period of previous financial year, mainly due to the better profit margins, stringent cost saving measures from leaner operations, and the reversal of impairment loss on receivables previously recognised.

#### Europe Segment

The Europe Segment recorded a higher revenue of approximately RM580.29 million in current period as compared with RM556.27 million in the corresponding period of the previous financial year mainly due to higher new orders secured.

Consequently, this Segment recorded a higher gross profit of approximately RM110.23 million and EBITDA of approximately RM100.69 million in current period as compared with RM 103.83 million and RM58.94 million respectively in the corresponding period of the previous financial year, mainly due to improved profit margins and lower operating expenses.

#### America Segment

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

The America Segment registered a lower loss mainly due to a lower unabsorbed fixed overhead.

### **B2. Performance of the current quarter against the preceding quarter (2<sup>nd</sup> Quarter 2019 versus 1<sup>st</sup> Quarter 2019)**

The Group’s revenue generated has been improved from approximately RM363.38 million in the preceding quarter to approximately RM375.03 million in the current quarter.

Consequently, the Group posted an improved gross profit of approximately RM64.89 million in the current quarter as compared with RM61.10 million.

The Group reported a lower profit before tax of RM12.20 million as compared with RM20.42 million in preceding quarter, was mainly due to unrealised loss on foreign exchange of approximately RM13.37 million in the current 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 30.06.2019 RM'000</b>	<b>3 months ended 30.06.2018 RM'000</b>	<b>6 months ended 30.06.2019 RM'000</b>	<b>6 months ended 30.06.2018 RM'000</b>
Current	4,695	6,762	8,943	11,829
Prior period	559	(650)	557	(149)
Deferred tax	427	(3,562)	1,999	(4,815)
	<u>5,681</u>	<u>2,550</u>	<u>11,499</u>	<u>6,865</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.

## B9. Group borrowings and debt securities

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

	<b>As at 30.06.2019 RM'000</b>
<b>Short term:</b>	
Borrowings (secured)	66,034
Borrowings (unsecured)	63,057
Bills Payable	46,908
Hire Purchase	3,533
Revolving credits	221,660
	<u>401,192</u>
 <b>Long term :</b>	
Borrowings (secured)	139,899
Borrowings (unsecured)	958,717
Hire Purchase	12,209
Revolving credits	24,656
	<u>1,135,481</u>
	<u>1,536,673</u>

The above are also inclusive of other borrowings in foreign currency of RMB40.00 million, EURO 145.94 million, CAD6.08 million, USD58.49 million, THB2.93 billion, and AED22.48 million.

The exchange rates used are 1 RMB = RM0.6018, 1 EURO = RM4.6987, 1 CAD = RM3.1565, 1 USD = RM4.1325, 1 THB = RM0.1290, and 1 AED = RM1.1251.

## B10. Financial Instruments

The outstanding forward foreign currency exchange contracts as at the end of the reporting period were as follows:-

<b>Type of Derivative</b>	<b>Contract/Notional value RM'000</b>	<b>Gain on Fair value changes RM'000</b>
Foreign Exchange Contracts		
-Less than 1 year	97,132	1,583
	<u>97,132</u>	<u>1,583</u>

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

	<b>3 Months ended 30.06.2019 RM'000</b>	<b>3 Months ended 30.06.2018 RM'000</b>	<b>6 Months ended 30.06.2019 RM'000</b>	<b>6 Months ended 30.06.2018 RM'000</b>
(a)				
Profit/(Loss) for the period is arrived at after charging:				
Reversal of impairment loss on receivables	(2,915)	(1,043)	(4,663)	(1,810)
Bad debts written off	-	3,586	-	3,586
Change in fair value of forward contracts	(985)	(2,683)	(194)	(1,001)
Amortisation of intangible assets	7,233	7,248	14,537	14,722
Reversal of provision for warranty	(5,597)	(462)	(8,790)	(4,462)
Provision for/(Reversal of) late delivery charges	128	-	(795)	-
(Gain)/Loss on disposal of property, plant and equipment	(4,669)	5,238	(4,666)	5,134
Reversal of impairment loss on property, plant and equipment	-	-	-	(9,600)
Share-based payment	77	12	153	23
And crediting:				
Interest income	327	442	415	905
(b)				
Interest expense	20,719	13,809	36,027	27,702
(c)				
Depreciation charge for the period is allocated as follow:				
Income statement	6,972	4,660	13,832	10,941
Construction work in progress	8,856	12,013	18,209	23,776
	<u>15,828</u>	<u>16,673</u>	<u>32,041</u>	<u>34,717</u>

**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 disputes arising from a contract entered into with the Respondent on 3 December 2010 and the matter is currently pending.

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	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
<b>Basic loss per share</b>				
Net profit/(loss) attributable to shareholders (RM'000)	7,504	(33,644)	25,942	(52,067)
Number of shares at the beginning of the year ('000)	2,369,437	2,175,420	2,369,437	2,175,420
Issuance of share-Private Placement ('000)	41,476	194,017	41,476	194,017
Effect of Share buy-back ('000)	(23,341)	(23,341)	(23,341)	(23,341)
Weighted average number of shares ('000)	<u>2,387,572</u>	<u>2,346,096</u>	<u>2,387,572</u>	<u>2,346,096</u>
Basic profit/(loss) per share (sen)	0.31	(1.43)	1.09	(2.22)

**B15. Authorisation for issue**

The interim financial report was authorised for issue by the Board of Directors on 29 August 2019.