

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2020 (Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Individual Quarter | | Cumulative year to date | |
|--|---|---|-----------------------------------|-----------------------------------|
| | Unaudited 3 months ended 30.06.2020 RM'000 | Unaudited 3 months ended 30.06.2019 RM'000 | Unaudited 30.06.2020 RM'000 | Unaudited 30.06.2019 RM'000 |
| Revenue | 333,030 | 375,029 | 669,590 | 738,408 |
| Operating profit | 29,164 | 33,318 | 60,440 | 69,487 |
| Finance costs | (15,000) | (21,448) | (27,553) | (37,286) |
| Interest income | (49) | 327 | 116 | 415 |
| Profit before tax | 14,115 | 12,197 | 33,003 | 32,616 |
| Tax expense | (4,759) | (5,681) | (6,191) | (11,499) |
| Net profit for the period | 9,356 | 6,516 | 26,812 | 21,117 |
| Other comprehensive income/(expense), net of tax | | | | |
| Foreign currency translation differences for foreign operations | 14,656 | 29,863 | 70,358 | (4,565) |
| Hedge of net investment in subsidiaries | 12,843 | 4,585 | (17,824) | (1,566) |
| Cash flow hedge | (82) | 914 | (111) | 1,609 |
| Revaluation of property, plant and equipment | 71 | - | 71 | - |
| Share of gain of equity-accounted associates and joint ventures | 1 | 1,257 | 89 | 1,362 |
| Other comprehensive income/(expense) for the period, net of tax | 27,489 | 36,619 | 52,583 | (3,160) |
| Total comprehensive income for the period | 36,845 | 43,135 | 79,395 | 17,957 |
| Profit attributable to: | | | | |
| Owners of the Company | 11,221 | 7,504 | 31,482 | 25,942 |
| Non-controlling interests | (1,865) | (988) | (4,670) | (4,825) |
| | 9,356 | 6,516 | 26,812 | 21,117 |
| Total comprehensive income/(expense) attributable to: | | | | |
| Owners of the Company | 40,087 | 44,086 | 84,590 | 23,044 |
| Non-controlling interests | (3,242) | (951) | (5,195) | (5,087) |
| Total comprehensive income for the period | 36,845 | 43,135 | 79,395 | 17,957 |
| Profit per share: | | | | |
| - Basic (Sen) | 0.43 | 0.31 | 1.20 | 1.09 |
| - Diluted (Sen) | 0.42 | 0.31 | 1.17 | 1.08 |

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

(Company No:521348-H)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | NOTE | Unaudited As at 30.06.2020 RM'000 | Audited As at 31.12.2019 RM'000 |
|--|------|--|--|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | | 418,221 | 412,434 |
| Goodwill | | 910,479 | 869,316 |
| Property, plant and equipment | | 1,530,592 | 1,501,530 |
| Right-of-use assets | | 56,290 | 57,907 |
| Other investments, including derivatives | | 182 | 174 |
| Deferred tax assets | | 66 | 65 |
| | | <u>2,915,830</u> | <u>2,841,426</u> |
| Current assets | | | |
| Inventories | | 65,951 | 99,020 |
| Contract assets | | 326,103 | 205,032 |
| Trade and other receivables | | 366,307 | 368,522 |
| Cash and bank balances | | 264,187 | 343,653 |
| | | <u>1,022,548</u> | <u>1,016,227</u> |
| Asset classified as held for sale | | 41,216 | 40,626 |
| | | <u>1,063,764</u> | <u>1,056,853</u> |
| TOTAL ASSETS | | <u>3,979,594</u> | <u>3,898,279</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | | 1,925,510 | 1,924,046 |
| Treasury shares | | (54,403) | (53,425) |
| Reserves | | (121,156) | (206,552) |
| | | <u>1,749,951</u> | <u>1,664,069</u> |
| Non-controlling interests | | <u>(19,410)</u> | <u>(14,215)</u> |
| Total Equity | | <u>1,730,541</u> | <u>1,649,854</u> |
| Non-current liabilities | | | |
| Long term payables | | 8,006 | 7,560 |
| Long service leave liability | | 7,184 | 6,884 |
| Lease liabilities | | 41,551 | 41,415 |
| Loans and borrowings | B9 | 1,116,338 | 1,008,218 |
| Deferred tax liabilities | | 218,244 | 207,786 |
| | | <u>1,391,323</u> | <u>1,271,863</u> |
| Current liabilities | | | |
| Trade and other payables | | 372,408 | 357,367 |
| Contract liabilities | | 141,975 | 113,741 |
| Lease liabilities | | 11,798 | 12,345 |
| Loans and borrowings | B9 | 298,300 | 459,393 |
| Current tax liabilities | | 33,249 | 33,716 |
| | | <u>857,730</u> | <u>976,562</u> |
| Total liabilities | | <u>2,249,053</u> | <u>2,248,425</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>3,979,594</u> | <u>3,898,279</u> |
| Net assets per share attributable to equity holders of the parent (RM) | | <u>0.66</u> | <u>0.64</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

KNM GROUP BERHAD

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
ENDED 30 JUNE 2020**

| | ← 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 | Accumulated Losses RM'000 | | | |
| As at 1 January 2019 | 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 |
| As at 1 January 2019 (Restated) | 1,883,498 | (53,425) | (2,571) | 27,468 | (146,609) | (165,690) | 1,542,671 | (2,454) | 1,540,217 |
| Other comprehensive income/(expense) for the period | - | - | 1,609 | - | (14,734) | 10,227 | (2,898) | (262) | (3,160) |
| Profit for the period | - | - | - | - | - | 25,942 | 25,942 | (4,825) | 21,117 |
| Total comprehensive income/(expense) for the period | - | - | 1,609 | - | (14,734) | 36,169 | 23,044 | (5,087) | 17,957 |
| Transactions with owners of the Company | | | | | | | | | |
| Change in ownership interest in a subsidiary | - | - | - | - | - | - | - | (805) | (805) |
| Share-based payment | - | - | - | - | 153 | - | 153 | - | 153 |
| Share issuance arising from private placement | 37,536 | - | - | - | - | - | 37,536 | - | 37,536 |
| As at 30 June 2019 (Unaudited) | 1,921,034 | (53,425) | (962) | 27,468 | (161,190) | (129,521) | 1,603,404 | (8,346) | 1,595,058 |
| As at 1 January 2020 | 1,924,046 | (53,425) | (1,369) | 27,468 | (121,387) | (111,264) | 1,664,069 | (14,215) | 1,649,854 |
| Other comprehensive income/(expense) for the period | - | - | (111) | - | 53,219 | - | 53,108 | (525) | 52,583 |
| Profit for the period | - | - | - | - | - | 31,482 | 31,482 | (4,670) | 26,812 |
| Total comprehensive (expense)/income for the period | - | - | (111) | - | 53,219 | 31,482 | 84,590 | (5,195) | 79,395 |
| Transactions with owners of the Company | | | | | | | | | |
| Share-based payment | - | - | - | - | 806 | - | 806 | - | 806 |
| Share issuance arising from ESOS | 1,464 | - | - | - | - | - | 1,464 | - | 1,464 |
| Share buy-back | - | (978) | - | - | - | - | (978) | - | (978) |
| As at 30 June 2020 (Unaudited) | 1,925,510 | (54,403) | (1,480) | 27,468 | (67,362) | (79,782) | 1,749,951 | (19,410) | 1,730,541 |

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(Company No. 521348-H)
(Incorporated in Malaysia)**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED
30 JUNE 2020**

(Unaudited)

| | 30.06.2020 (Unaudited) RM '000 | 30.06.2019 (Unaudited) RM '000 |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before tax | 33,003 | 32,616 |
| Adjustments for: | | |
| Amortisation of intangible assets | 14,187 | 14,537 |
| Depreciation of property, plant and equipment | 10,811 | 13,832 |
| Depreciation of right-of-use assets | 2,806 | - |
| Share-based payment | 806 | 153 |
| Interest expense | 26,264 | 36,027 |
| Interest income | (116) | (415) |
| Unrealised gain on foreign exchange | (7,317) | (13,372) |
| Change in fair value of forward contracts | 406 | (194) |
| Provision for/(Reversal of) warranty | 620 | (8,790) |
| Provision for/(Reversal of) late delivery charges | 89 | (795) |
| Gain on disposal of property, plant and equipment | (3) | (4,666) |
| Reversal of impairment loss on receivables | (2,229) | (4,663) |
| Operating profit before working capital changes | <u>79,327</u> | <u>64,270</u> |
| Changes in working capital: | | |
| Inventories | 38,358 | 7,617 |
| Trade and other receivables | (81,133) | (6,948) |
| Trade and other payables | 22,213 | (112,047) |
| Cash generated from/(used in) operations | <u>58,765</u> | <u>(47,108)</u> |
| Income taxes paid | (4,638) | (3,196) |
| Interest paid | (375) | (172) |
| Interest received | 116 | 415 |
| Net cash generated from/(used in) operating activities | <u>53,868</u> | <u>(50,061)</u> |
| Cash flows from investing activities | | |
| Change in pledged deposits | 32,976 | (22,219) |
| Acquisition of property, plant and equipment | (5,099) | (17,480) |
| Acquisition of right of use assets | (3,179) | - |
| Acquisition of subsidiaries, net of cash inflow | - | 1,557 |
| Acquisition of other intangible assets | (74) | - |
| Proceeds from disposal of property, plant and equipment | 7 | 681 |
| Net cash generated from/(used in) investing activities | <u>24,631</u> | <u>(37,461)</u> |
| Cash flows from financing activities | | |
| Share buy-back | (978) | - |
| Net repayment of bills payable | (4,973) | (111,278) |
| Repayments of finance lease liabilities | (2,602) | (2,712) |
| Net (repayment)/drawdown of term loans, bond and revolving credits | (88,761) | 201,502 |
| Lease interest paid | (543) | - |
| Interest paid | (26,264) | (36,027) |
| Proceed from share issuance arising from private placement | - | 37,536 |
| Proceeds from share issuance arising from ESOS | 1,464 | - |
| Net cash (used in)/generated from financing activities | <u>(122,657)</u> | <u>89,021</u> |
| Net (decrease)/increase in cash and cash equivalents | (44,158) | 1,499 |
| Cash and cash equivalents at beginning of period | 290,111 | 381,043 |
| Effect of foreign currency translation | (2,632) | (15,352) |
| Cash and cash equivalents at end of period | <u>243,321</u> | <u>367,190</u> |
| Cash and bank balances | 242,355 | 320,509 |
| Deposits with licensed banks | 21,832 | 94,914 |
| Less: Pledged deposits | (14,548) | (48,233) |
| | <u>249,639</u> | <u>367,190</u> |
| Bank overdrafts | (6,318) | - |
| | <u>243,321</u> | <u>367,190</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 – 30 June 2020

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 2019. 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 2019.

A2. Significant Accounting Policies

The audited financial statements of the Group for the financial year ended 31 December 2019 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 2019 except for the adoption of new MFRSs and amendments that are mandatory for the Group for the financial year with effect from 1 January 2020:

| | |
|------------------------|--|
| Amendments to MFRS 3 | <i>Business Combinations – Definition of a Business</i> |
| Amendments to MFRS 101 | <i>Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material</i> |
| Amendments to MFRS 9 | <i>Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement and MFRS 7, Financial Instruments: Disclosures – Interest Rate Benchmark Reform</i> |

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

| | |
|---------|----------------------------|
| MFRS 17 | <i>Insurance Contracts</i> |
|---------|----------------------------|

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

| | |
|------------------------|---|
| Amendments to MFRS 101 | <i>Presentation of Financial Statements – Classification of Liabilities as Current or Non-current</i> |
|------------------------|---|

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

| | |
|-----------------------|---|
| Amendments to MFRS 10 | <i>Consolidated Financial Statements</i> |
| MFRS 128 | <i>Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |

The Group plans 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, except for MFRS 17, *Insurance Contracts* that is effective for annual period beginning on or after 1 January 2021 as it is not applicable to the Group.

The initial adoption of the abovementioned accounting standards, amendments and interpretations is not expected to have any material financial impact to the current period and prior period financial statements of the Group.

A3. Qualification of annual financial statements

There was no audit qualification in the annual financial statements of the Group for the financial year ended 31 December 2019.

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.

On 9 March 2020, the Company had repurchased 6,500,000 ordinary shares of the Company from the open market for RM978,315 excluding share issuance expenses.

As at the date of this report, the Company held 29,841,275 ordinary shares out of its total issued share capital in accordance with the requirement of Section 127 of the Companies Act 2016.

- b. On 14 July 2020, 22 July 2020, 10 August 2020 and 14 August 2020, the Company had announced the additional total listing of 75,516,300 ordinary shares in the Company respectively pursuant to the Company's Employee Share Option Scheme ("ESOS"), and the said ESOS shares have been allotted to the eligible employees on 15 July 2020, 22 July 2020, 11 August 2020 and 17 August 2020 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:

| | Revenue | Gross Profit | EBITDA/ (LBITDA) |
|----------------|---|---|---|
| | 6 months ended 30.06.2020 RM'000 | 6 months ended 30.06.2020 RM'000 | 6 months ended 30.06.2020 RM'000 |
| Asia & Oceania | 83,722 | 7,849 | 36,396 |
| Europe | 585,868 | 124,539 | 74,417 |
| Americas | - | - | (1,308) |
| | <hr/> 669,590 | <hr/> 132,388 | <hr/> 109,505 |

| | Revenue | Gross Profit | EBITDA/ (LBITDA) |
|----------------|---|---|---|
| | 6 months ended 30.06.2019 RM'000 | 6 months ended 30.06.2019 RM'000 | 6 months ended 30.06.2019 RM'000 |
| Asia & Oceania | 153,450 | 15,527 | 15,702 |
| Europe | 580,287 | 110,231 | 100,694 |
| Americas | 4,671 | 239 | (331) |
| | <hr/> 738,408 | <hr/> 125,997 | <hr/> 116,065 |

A10. Valuation of property, plant and equipment

Valuation of property and plant of the Group has been brought forward without amendment from the financial statements for the financial year ended 31 December 2019.

The next revaluation of property and plant of the Group shall be conducted in the financial year ending 31 December 2024.

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

The coronavirus (COVID-19) pandemic was announced by the World Health Organisation in March 2020 due to the global outbreak of the said coronavirus virus, including in Malaysia. The COVID-19 pandemic has prompted many countries to introduce unprecedented measures to contain the pandemic, including temporary shutdown of businesses and restrictions on travel and mobility.

As at the date of this interim financial report is authorised for issuance, the COVID-19 infections in Malaysia were under control and the Malaysian government has begun to gradually ease the Movement Control Order. However, the COVID-19 pandemic globally is still evolving and unpredictable. As such, it is difficult to quantify the exact magnitude of the impact of this unprecedented pandemic to global economy and to the Group at this juncture. Nevertheless, the Group is actively monitoring and managing the Group's operations to minimise any impacts that may have caused by the COVID-19 pandemic.

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

On 22 July 2020, a wholly subsidiary of the Company, namely KNM Process Systems Sdn. Bhd. had incorporated a joint venture company namely, ADAP KNM (S) Sdn. Bhd. with paid up share capital of RM100,000 comprising of 100,000 ordinary shares in relation to a joint venture with ADAP Capital Sdn. Bhd. in respect of oil, gas and petrochemical projects in Sarawak.

Save for the above, there were no other changes in the composition of the Group since the last update in the Q1 2020 results.

A13. Contingent liabilities and Assets

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

| | 30.06.2020 | 30.06.2019 |
|--|-------------------|-------------------|
| | RM'000 | RM'000 |
| Guarantees and contingencies relating to borrowings and performance obligation of subsidiaries | 557,437 | 696,294 |
| Share of joint ventures' contingent liabilities incurred jointly with other investors | | |
| - Secured guaranteed bank facilities and unsecured performance obligation of joint ventures | 12,596 | 26,105 |

There were no other material changes in the contingent liabilities.

There were no material contingent assets for the Group.

A14. Capital commitments

| | Contracted but not provided for |
|-------------------------------|--|
| | RM'000 |
| Property, plant and equipment | 1,071,784 |

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 | 521 |
| IM Bina Sdn. Bhd. (a) | |
| - Contract billing payable | 5 |
| Inter Merger Realty & Development Sdn. Bhd. (a) | |
| - Office rental, administrative expense and other support services | 12 |

(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 months ended 30 June 2020 against 30 June 2019

The Group posted a lower revenue of approximately RM669.59 million for the 6 months ended 30 June 2020 as compared with RM738.41 million achieved in the corresponding financial period of 2019. The lower revenue was mainly due to temporary closure of the fabrication plants in China and Malaysia following the COVID-19 lockdown restrictions and reduced ethanol production in Thailand's operations.

The Group registered a higher gross profit of approximately RM132.39 million in the current financial period as compared with RM126.00 million in the corresponding financial period of 2019. The improved gross profit was mainly due to rigorous cost savings from projects. The Group posted a lower Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") of approximately RM109.51 million in the current financial period as compared with RM116.07 million in the corresponding financial period of 2019 mainly due to lower exchange gain in the current financial period and reversal of provision for warranty in the corresponding financial period of 2019.

The Group posted a marginally higher profit before tax ("PBT") of approximately RM33.00 million in the current financial period as compared with RM32.62 million in the corresponding financial period of 2019 due to lower finance costs incurred in the current financial period.

Asia & Oceania Segment

Asia & Oceania Segment posted a lower revenue of approximately RM83.72 million in the current financial period as compared with RM153.45 million in the corresponding financial period of 2019. The decline in revenue since the first quarter of 2020 was mainly due to temporary closure of the fabrication plants in China and Malaysia following the COVID-19 lockdown restrictions and reduced ethanol production in Thailand's operations.

Consequently, this Segment posted a lower gross profit of approximately RM7.85 million in the current financial period as compared with RM15.53 million in the corresponding financial period of 2019. It is noticeable that the gross profit margin was recorded slightly lower at 9.4% in the current financial period amid the COVID-19 pandemic as compared with 10.0% in the corresponding financial period of 2019. The EBITDA of this Segment had improved in the current financial period and posted at RM36.40 million as compared with RM15.70 million in the corresponding financial period of 2019 mainly due to a higher exchange gain in the current financial period.

Europe Segment

The Europe Segment posted a higher revenue of approximately RM585.87 million in the current financial period as compared with RM580.29 million in the corresponding financial period of 2019 mainly due to higher order backlog.

This Segment recorded a higher gross profit of approximately RM124.54 million in the current financial period as compared with RM110.23 million in the corresponding financial period of 2019 resulting from leaner operations. This Segment registered a lower EBITDA of approximately RM74.42 million in current financial period as compared with RM100.69 million in the corresponding financial period of 2019, mainly due to unrealised exchange loss in the current financial period.

America Segment

The business activities in this Segment remained minimal with minimal operational fixed overhead.

This Segment registered a higher Loss Before Interest, Tax, Depreciation and Amortisation ("LBITDA") of approximately RM1.31 million in the current financial period mainly due to unrealised exchange loss as compared with RM0.33 million in the corresponding financial period of 2019.

B2. Performance of the current quarter against the preceding quarter (2nd Quarter 2020 versus 1st Quarter 2020)

The Group's revenue was marginally lower at approximately of RM333.03 million in the current quarter as compared with approximately of RM336.56 million in the preceding quarter, mainly due to temporary closure of the fabrication plants in China and Malaysia following the COVID-19 lockdown restrictions and reduced ethanol production in Thailand's operations.

However, the Group's was able to maintain similar level of gross profit of approximately RM66.10 million and gross profit margin of 19.8% in the current quarter as compared with RM66.29 million and 19.7% respectively in the preceding quarter, mainly due to improved gross profit margins achieved by Europe Segment which have offset with a higher unabsorbed overhead incurred due to temporary closure of the fabrication plants in Asia & Oceania Segment.

The Group registered a lower profit before tax of approximately RM14.12 million in the current quarter as compared with RM18.89 million in the preceding quarter due to higher finance costs.

B3. Prospects

The Board anticipates that the outlook for financial year ending 31 December 2020 will remain challenging due to the continuous uncertainties in the global economy outlook and impacts of COVID-19 pandemic. The Board will take the necessary measures to manage and mitigate these uncertainties.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

| | 3 months ended 30.06.2020 RM'000 | 3 months ended 30.06.2019 RM'000 | 6 months ended 30.06.2020 RM'000 | 6 months ended 30.06.2019 RM'000 |
|--------------|---|---|---|---|
| Current | 3,057 | 4,695 | 6,736 | 8,943 |
| Prior period | (148) | 559 | (148) | 557 |
| Deferred tax | 1,850 | 427 | (397) | 1,999 |
| | <u>4,759</u> | <u>5,681</u> | <u>6,191</u> | <u>11,499</u> |

The Group's effective tax rate for the financial period is lower than statutory tax rate mainly due to a reversal of deferred tax liabilities over-recognised previously.

B6. Unquoted investments and properties

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

B7. Quoted and marketable investments

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

B8. Status of corporate proposals announced but not completed

On 28 August 2019, the Company had announced on the disposal of Borsig ZM Compression GmbH (“BZM”) by Borsig GmbH of its entire equity interests comprising one (1) ordinary share of EUR24,000 and one (1) ordinary share of EUR1,000 held in BZM to Borsig ZM Schweiz AG and Iskra-Neftegaz Compressor Limited Liability Company, for a cash consideration of EUR28 million (equivalent to approximately RM130.76 million based on the exchange rate of EUR1.00 : RM4.67) (“the Proposed Disposal”).

On 31 December 2019, the Company had also announced that the completion date of the Proposed Disposal had been postponed to a date to be determined.

Until to-date, there is no update on the Proposed Disposal.

B9. Group borrowings and debt securities

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

| | As at 30.06.2020 RM’000 |
|------------------------|--|
| Short-term: | |
| Bank overdrafts | 6,318 |
| Borrowings (secured) | 59,919 |
| Borrowings (unsecured) | 83,575 |
| Bills Payable | 49,889 |
| Hire Purchase | 4,051 |
| Revolving credits | 94,548 |
| | <u>298,300</u> |
| Long-term: | |
| Borrowings (secured) | 137,312 |
| Borrowings (unsecured) | 950,996 |
| Hire Purchase | 13,072 |
| Revolving credits | 14,958 |
| | <u>1,116,338</u> |
| | <u>1,414,638</u> |

The above are also inclusive of other borrowings in foreign currency of RMB40.00 million, EURO 138.58 million, CAD6.67 million, USD33.12 million, THB2.82 billion, and AED9.39 million.

The exchange rates used are 1 RMB = RM0.6064, 1 EURO = RM4.8128, 1 CAD = RM3.1560, 1 USD = RM4.2845, 1 THB = RM0.1386, and 1 AED = RM1.1664.

B10. Financial Instruments

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

| Type of Derivative | Contract/Notional value RM’000 | Loss on Fair value changes RM’000 |
|----------------------------|---|--|
| Foreign Exchange Contracts | | |
| -Less than 1 year | 41,403 | 399 |
| | <u>41,403</u> | <u>399</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 year. 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 30.06.2020 RM'000 | 3 months ended 30.06.2019 RM'000 | 6 months ended 30.06.2020 RM'000 | 6 months ended 30.06.2019 RM'000 |
|--|---|---|---|---|
| (a) | | | | |
| Profit for the period is arrived at after charging: | | | | |
| Reversal of impairment loss on receivables | (2,252) | (2,915) | (2,229) | (4,663) |
| Change in fair value of forward contracts | (448) | (985) | 406 | (194) |
| Amortisation of intangible assets | 7,205 | 7,233 | 14,187 | 14,537 |
| Provision for/(Reversal of) warranty | 33 | (5,597) | 620 | (8,790) |
| Provision for/(Reversal of) late delivery charges | 89 | 128 | 89 | (795) |
| Gain on disposal of property, plant and equipment | (3) | (4,669) | (3) | (4,666) |
| Share-based payment | 403 | 77 | 806 | 153 |
| And crediting: | | | | |
| Interest income | (49) | 327 | 116 | 415 |
| (b) | | | | |
| Interest expense | 14,398 | 20,719 | 26,264 | 36,027 |
| (c) | | | | |
| Depreciation charge for the period is allocated as follow: | | | | |
| Income statement | 7,303 | 6,972 | 13,617 | 13,832 |
| Construction work in progress | 10,873 | 8,856 | 21,261 | 18,209 |
| | <u>18,176</u> | <u>15,828</u> | <u>34,878</u> | <u>32,041</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. The final hearing is scheduled to take place in July 2020.

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. Earnings per share

| <u>Basic earnings per ordinary share</u> | <u>Individual Quarter</u> | | <u>Cumulative Quarter</u> | |
|--|---------------------------|-------------------|---------------------------|-------------------|
| | <u>30.06.2020</u> | <u>30.06.2019</u> | <u>30.06.2020</u> | <u>30.06.2019</u> |
| Net profit attributable to shareholders (RM'000) | 11,221 | 7,504 | 31,482 | 25,942 |
| Number of shares at the beginning of the year ('000) | 2,631,414 | 2,369,437 | 2,631,414 | 2,369,437 |
| Issuance of share Private Placement ('000) | - | 41,476 | - | 41,476 |
| Effect of Share buy-back ('000) | (25,354) | (23,341) | (25,354) | (23,341) |
| Weighted average number of shares issued under ESOS ('000) | 24,797 | - | 24,797 | - |
| Weighted average number of ordinary shares ('000) | <u>2,630,857</u> | <u>2,387,572</u> | <u>2,630,857</u> | <u>2,387,572</u> |
| Basic earnings per ordinary share (Sen) | 0.43 | 0.31 | 1.20 | 1.09 |

| <u>Diluted earnings per ordinary shares</u> | <u>Individual Quarter</u> | | <u>Cumulative Quarter</u> | |
|---|---------------------------|-------------------|---------------------------|-------------------|
| | <u>30.06.2020</u> | <u>30.06.2019</u> | <u>30.06.2020</u> | <u>30.06.2019</u> |
| Net profit attributable to shareholders (RM'000) | 11,221 | 7,504 | 31,482 | 25,942 |
| Weighted average number of ordinary shares at 30 June 2020 ('000) | 2,630,857 | 2,387,572 | 2,630,857 | 2,387,572 |
| Effect of ESOS share options issued ('000) | 54,482 | 25,080 | 54,482 | 25,080 |
| Weighted average number of shares ('000) | <u>2,685,339</u> | <u>2,412,652</u> | <u>2,685,339</u> | <u>2,412,652</u> |
| Diluted earnings per ordinary share (Sen) | 0.42 | 0.31 | 1.17 | 1.08 |

The calculation of diluted earnings per ordinary share was based on the profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding during year after adjustment for the effects of dilutive potential ordinary shares in issue and issuable under the ESOS options at an exercise price of RM0.11. The ESOS options at an exercise price of RM0.65 and warrants are excluded from the computation of diluted earnings per ordinary share as they do not have any potential dilutive effect.

B15. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 26 August 2020.