

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2011 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Individual Quarter | | Cumulative Year to date | |
|--|--|--|----------------------------------|----------------------------------|
| | Unaudited 3 months ended 30.9.2011 RM'000 | Unaudited 3 months ended 30.9.2010 RM'000 | Unaudited 30.9.2011 RM'000 | Unaudited 30.9.2010 RM'000 |
| Contract revenue | <u>445,185</u> | <u>418,359</u> | <u>1,402,485</u> | <u>1,174,870</u> |
| Operating (loss)/profit | (133,259) | 53,692 | (101,649) | 86,605 |
| Financing costs | (13,056) | (13,611) | (38,968) | (40,171) |
| Interest income | 947 | 940 | 2,830 | 3,167 |
| Share of profit/(loss) of jointly controlled entities | 427 | 11 | 920 | 1 |
| (Loss)/ Profit before tax | <u>(144,941)</u> | <u>41,032</u> | <u>(136,867)</u> | <u>49,602</u> |
| Tax expense | 28,942 | 19,539 | 49,832 | 65,013 |
| Net (loss)/ profit for the period | <u>(115,999)</u> | <u>60,571</u> | <u>(87,035)</u> | <u>114,615</u> |
| Other comprehensive (loss)/ income, net of tax | | | | |
| Foreign currency translation differences | (34,959) | 92,638 | 53,319 | (108,764) |
| Net investment in subsidiaries | 11,689 | (27,862) | 40,065 | (238,677) |
| Surplus on revaluation of property, plant and equipment | - | 6,863 | - | - |
| Cash Flow hedge | 1,038 | - | 4,326 | 5,801 |
| Share of other comprehensive income of equity accounted investee | 179 | - | 179 | - |
| Other comprehensive (loss)/ income for the period, net of tax | <u>(22,053)</u> | <u>71,639</u> | <u>97,889</u> | <u>(341,640)</u> |
| Total comprehensive (loss)/ income for the period | <u>(138,052)</u> | <u>132,210</u> | <u>10,854</u> | <u>(227,025)</u> |
| Attributable to: | | | | |
| Equity holders of the parent | (116,295) | 56,094 | (86,424) | 110,572 |
| Minority interest | 296 | 4,477 | (611) | 4,043 |
| | <u>(115,999)</u> | <u>60,571</u> | <u>(87,035)</u> | <u>114,615</u> |
| Total comprehensive (loss)/ income attributable to: | | | | |
| Equity holders of the parent | (136,494) | 127,774 | 12,951 | (230,596) |
| Minority interest | (1,558) | 4,436 | (2,097) | 3,571 |
| Total comprehensive (loss)/ income for the period | <u>(138,052)</u> | <u>132,210</u> | <u>10,854</u> | <u>(227,025)</u> |
| Earnings per share: | | | | |
| - Basic (sen) | (11.88) | 5.69 | (8.83) | 11.21 |

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

(Company No:521348-H)

(Incorporated in Malaysia)

2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | NOTE | Unaudited As at 30.9.2011 RM'000 | Audited As at 31.12.2010 RM'000 |
|--|------|---|--|
| Assets | | | |
| Non-current assets | | | |
| Intangible Assets | | 626,042 | 620,858 |
| Goodwill | | 829,081 | 798,974 |
| Property, plant and equipment | | 762,028 | 748,722 |
| Other investment, including derivative | | 4,244 | 3,620 |
| Interest in associates | | 3,296 | 455 |
| Interest in jointly-controlled entities | | 156 | 316 |
| Deferred Tax Asset | | 261,686 | 195,946 |
| | | <u>2,486,533</u> | <u>2,368,891</u> |
| Current assets | | | |
| Inventories | | 72,496 | 69,063 |
| Contracts work in progress | | 381,855 | 426,541 |
| Trade and other receivables | | 433,503 | 363,420 |
| Cash and cash equivalents | | 412,791 | 296,237 |
| | | <u>1,300,645</u> | <u>1,155,261</u> |
| TOTAL ASSETS | | <u>3,787,178</u> | <u>3,524,152</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | | 1,001,093 | 1,001,093 |
| Treasury Shares | | (53,371) | (44,588) |
| Reserves | | 745,544 | 761,936 |
| | | <u>1,693,266</u> | <u>1,718,441</u> |
| Minority interest | | <u>10,231</u> | <u>12,328</u> |
| Total Equity | | <u>1,703,497</u> | <u>1,730,769</u> |
| Non-current liabilities | | | |
| Long term payable | | 21,094 | 25,552 |
| Long service leave liability | | 1,481 | 1,911 |
| Loans and borrowings | B9 | 372,038 | 380,493 |
| Deferred taxation | | 259,179 | 265,928 |
| | | <u>653,792</u> | <u>673,884</u> |
| Current liabilities | | | |
| Payables and accruals | | 418,658 | 389,574 |
| Customers advance for contract work in progress | | 317,967 | 57,346 |
| Loans and borrowings | B9 | 686,576 | 664,641 |
| Current tax liabilities | | 6,688 | 7,938 |
| | | <u>1,429,889</u> | <u>1,119,499</u> |
| Total liabilities | | <u>2,083,681</u> | <u>1,793,383</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>3,787,178</u> | <u>3,524,152</u> |
| Net assets per share attributable to equity holders of the parent (RM) | | <u>1.69</u> | <u>1.72</u> |

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

(Company No:521348-H)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
ENDED 30 SEPTEMBER 2011**

| | ← Attributable to equity holders of the parent → | | | | | | Distributable Reserve | | Minority Interest RM'000 | Total equity RM'000 |
|---|--|-----------------------------|----------------------------|------------------------------|--------------------------|--|---|-----------------|--------------------------------|---------------------------|
| | Share Capital RM'000 | Treasury Share RM'000 | Share Premium RM'000 | Non- Distributable | | | (Accumulated Loss) / Retained Profit RM'000 | Total 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 | (Accumulated Loss) / Retained Profit RM'000 | Total RM'000 | Minority Interest RM'000 | Total equity RM'000 |
| As at 1 January 2010 | 1,001,093 | (34,132) | 319,426 | - | - | (95,732) | 818,031 | 2,008,686 | 3,046 | 2,011,732 |
| Effect arising from adoption of FRS 139 | - | - | - | (6,274) | 30 | - | (5,404) | (11,648) | - | (11,648) |
| As at 1 January 2010, restated | 1,001,093 | (34,132) | 319,426 | (6,274) | 30 | (95,732) | 812,627 | 1,997,038 | 3,046 | 2,000,084 |
| Total comprehensive (loss)/ income for the period | - | - | - | 5,801 | - | (346,969) | 110,572 | (230,596) | 3,571 | (227,025) |
| Transaction with owners in their capacity as owner | | | | | | | | | | |
| Increase in share capital in subsidiaries | - | - | - | - | - | - | - | - | 592 | 592 |
| Issue of shares pursuant to: - ESOS | - | - | - | - | - | - | - | - | - | - |
| Share Buy Back | - | (10,456) | - | - | - | - | - | (10,456) | - | (10,456) |
| Transfer to share premium for share options exercised | - | - | - | - | - | - | - | - | - | - |
| Dividend paid | - | - | - | - | - | - | - | - | (631) | (631) |
| As at 30 SEPTEMBER 2010 (Unaudited) | 1,001,093 | (44,588) | 319,426 | (473) | 30 | (442,701) | 923,199 | 1,755,986 | 6,578 | 1,762,564 |
| 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 (loss)/ income for the period | - | - | - | 4,326 | - | 95,049 | (86,424) | 12,951 | (2,097) | 10,854 |
| Transaction with owners in their capacity as owner | | | | | | | | | | |
| Acquisition of equity interest in subsidiary | | | | | | | | | | - |
| Increase in share capital of subsidiaries | - | - | - | - | - | - | - | - | - | - |
| Share Buy Back | - | (8,783) | - | - | - | - | - | (8,783) | - | (8,783) |
| Dividend | | | | | | | (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 |

KNM GROUP BERHAD

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2011

| | 30.9.2011 | 30.9.2010 |
|---|-----------------------|-----------------------|
| | RM | RM |
| | '000 | '000 |
| | Unaudited | Unaudited |
| Net cash generated from operating activities | 224,369 | 19,617 |
| Net cash used in investing activities | (46,183) | (56,897) |
| Net cash used in financing activities | (59,251) | (230,802) |
| Net increase/ (decrease) in cash and cash equivalents | <u>118,935</u> | <u>(268,082)</u> |
| Cash and cash equivalents at beginning of year | 286,532 | 553,783 |
| Cash and cash equivalents at end of period | <u><u>405,467</u></u> | <u><u>285,701</u></u> |
| | | |
| Cash & bank balances | 299,440 | 205,741 |
| Deposits with financial institutions | 53,987 | 14,512 |
| Deposits with licensed banks | <u>59,364</u> | <u>76,036</u> |
| | 412,791 | 296,289 |
| Bank overdraft | <u>(7,324)</u> | <u>(10,588)</u> |
| | <u><u>405,467</u></u> | <u><u>285,701</u></u> |

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

Notes to the quarterly Interim Financial Report – 30 September 2011

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 FRS 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 2010. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2010.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2011.

On 1 January 2011, the Group adopted the following FRSs:-

| FRSs, Amendments to FRSs and Interpretations | |
|--|--|
| FRS 3 | Business Combination (Revised) |
| FRS 127 | Consolidated and Separate Financial Statements (revised) |
| Amendment to FRS 132 | Financial Instruments: Presentation-Classification of Rights Issues |
| Amendments to FRS 7 | Financial Instruments : Disclosure-Improving Disclosures about Financial Instruments |
| Amendment to FRS 138 | Intangible Assets |
| Improvements to FRSs (2010) | |
| IC Interpretation 4 | Determining whether an Arrangement contains a Lease |
| IC Interpretation 16 | Hedges of a Net Investment in a Foreign Operation |
| IC Interpretation 17 | Distributions of Non-cash Assets to Owners |
| IC Interpretation 18 | Transfers of Assets from Customers |
| Amendments to IC Interpretation 9 | Reassessment of Embedded Derivatives |

FRS 1 (revised), Amendment to FRS 1 First time Adoption of Financial Reporting standard, Amendment to FRS 2 Share-based Payment, Amendment to FRS 5 Non-current asset held for sale and discontinued operations and IC Interpretation 12 Service Concession Agreement will also be effective for annual period beginning on or after 1 July 2010 and 1 January 2011. These standards and IC Interpretations, are, however, not applicable to the Group.

Adoption of the above FRSs, Amendments to FRSs and IC Interpretations did not have any effect on the financial performance, position or presentation of financials of the Group, other than the disclosures under the Amendments to FRS 7 which will affect the 2011 annual financial statements.

FRS, IC Interpretations and Amendments to IC Interpretation issued but not yet effective

At the date of authorization of these interim financial statements, the following FRS, IC Interpretations and Amendments to IC Interpretation were issued but not yet effective and have not been applied by the Group:

| FRS, IC Interpretation and Amendments to IC Interpretation | | Effective for annual periods beginning on or after |
|--|---|--|
| FRS124 | Related Party Disclosure (revised) | 1 January 2012 |
| IC Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2011 |

Amendment to IC Interpretation 14, Prepayments of a Minimum Funding Requirement and IC Interpretation 15, Agreements for the Construction of Real Estate will also be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012. These IC Interpretations, are, however, not applicable to the Group.

A3. Qualification of annual financial statements

There were no audit qualification on the annual financial statements of the Group for the year ended 31 December 2010.

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 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:

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| | |
|--|-----------------|
| | RM'000 |
| Opening Balance of ICP/IMTN outstanding as at 1 January 2011 | 265,000 |
| ICP/IMTN Drawdown/(Repayment) | <u>(75,000)</u> |
| Balance of ICP/IMTN outstanding as at 30 September 2011 | <u>190,000</u> |

As at 30 September 2011, the amount outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) is RM190.0 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 23,241,275 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM2.30 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares and treated in accordance with the requirement of Section 67A of the Companies Act 1965.

A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Geographical segments:

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

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 7 February 2011, KNM Europa BV, an effective wholly-owned subsidiary of the Company had incorporated and subscribed for 10,000 ordinary shares of GBP1.00 each in KNM Project Services Limited (“KPSL”), representing 100% equity interest in KPSL for a total cash consideration of GBP10,000 (approximately RM49,100 based on the exchange rate of GBP1 : RM4.91).
- (2) On 11 April 2011, KNM Process Systems Sdn Bhd (“KNMPS”) had invested and subscribed for 800 ordinary shares of RM1.00 each in KNM Ogpert (Sabah) Sdn Bhd (“KNMOS”), representing 80% equity interest in KNMOS for a total cash consideration of RM800.
- (3) On 11 April 2011, Borsig Industrial Services Sdn Bhd (“BIS”) had invested and subscribed for 40,000 ordinary shares of RM1.00 each in Dimensi Bumijaya Sdn Bhd (“DBSB”), representing 40% equity interest in DBSB for a total cash consideration of RM40,000.
- (4) Further to the Company’s (“KNM”) announcement on 14 December 2010, KNM had on 28 June 2011 entered into a Shareholders’ Agreement (“SHA”) which supersedes the Joint Venture Agreement (“JVA”) with Petrosab Logistik Sdn Bhd (“PETROSAB”) dated 13 December 2010; whereby:-
 - (a) The shareholding structure in the joint venture company, Petrosab Petroleum Sdn Bhd (formerly known as KNM Petrosab Sdn Bhd) (“PPSB”), originally on 51% (KNM) : 49% (PETROSAB) basis pursuant to the JVA has now been revised to 40% (KNM) : 60% (PETROSAB) pursuant to the SHA. KNM will subscribe for an additional 39,999 ordinary shares of RM1.00 each in PPSB for a total cash consideration of RM39,999 (“**Investment No. 1**”). This additional 39,999 ordinary shares together with the previous 1 ordinary share held represents 40% of enlarged issued and paid up share capital of PPSB; and
 - (b) KNM OGPET (Sabah) Sdn Bhd (“KNMOS”) will subscribe for 1,500,000 ordinary shares of RM1.00 each in KNM Petrosab Engineering Sdn Bhd (“KNMPE”) (representing 30% of the enlarged issued and paid up share capital of KNMPE) for RM1,500,000; whereas, PPSB will subscribe for 3,499,998 ordinary shares of RM1.00 each in KNMPE for RM3,499,998 which, together with the previous 2 ordinary shares held represents 70% of the enlarged issued and paid up share capital of KNMPE (jointly referred as “**Investment No. 2**”).

- (5) Pursuant to a Membership Interest Transfer Agreement dated 1 October 2011, KPS Inc., an effective wholly-owned subsidiary of the Company had duly re-transferred its 4.87% interest in KPS Technology & Engineering LLC (“KPSLLC”) to one of its current staff/member i.e. Mr Alan D. Mosher, for a nominal value of USD1.00 only.

A13. Changes in contingent liabilities

There were no material changes in contingent liabilities for the Group as at the date of this announcement except for two corporate guarantees executed last quarter in favor of HSBC valued RM700 million for multi trade facilities & GBP 100 million for revolving credit, both for the Energy Park Peterborough Project has expired.

A14. Capital commitments

| | Approved and contracted for RM'000 | Approved but not contracted for RM'000 |
|-------------------------------|--|--|
| Property, plant and equipment | 25,549 | 67,880 |
| Investment | 4,546 | 10,281 |
| | <u>30,095</u> | <u>78,161</u> |

A15. Related party transactions

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

| | RM '000 |
|--|---------|
| Inter Merger Sdn Bhd (a) | |
| - Office rental, related charges and administrative expense | 1,346 |
| I.M.Bina Sdn Bhd (b) | |
| -General construction and civil works | 5,170 |
| IMT O&G Solutions Sdn Bhd (c) | |
| -Supply of production materials and fixed assets | 8 |
| Tofield Realty Development Corporation (d) | |
| - General and civil contractor and provider of staff accommodation | 369 |
| Nassir Hazza (e) | |
| - General construction, civil and related mechanical and engineering work | 1,317 |
| KPS Technology & Engineering LLC(f) | |
| -Provision/Receipt of mechanical and engineering, general administrative and other support services | 919 |
| -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 RM1.40 billion, loss after tax and minority interest of RM86.42 million and loss EBITDA (Earning Before Interest, Tax, Depreciation and Amortisation) of RM32.08 million for the period ended 30 September 2011. Compared to the previous year, the higher revenue in this year was due to higher job recognition. The loss after tax and minority interest and lower EBITDA in this period was mainly due to one off provision for foreseeable losses and credit impairments.

B2. Variation of results against preceding quarter

The Group's revenue of RM445.19 million and net loss before taxation and minority interest of RM144.94 million for the third quarter ended 30 September 2011 were lower by RM99.11 million and lower by RM146.75 million compared to second quarter's revenue of RM544.30 million and net profit before taxation and minority interest of RM1.81 million respectively. The lower revenue for this quarter is mainly due to delays in implementation of projects, whilst net loss before taxation and minority interest is mainly attributable to one off provision for foreseeable losses and credit impairments during the quarter.

B3. Current year prospects

Notwithstanding the Group has strong order book, the Board expects the business environment for the remaining quarter to remain challenging due to global uncertainties. However, the Board is optimistic that going forward the prospects for the oil & gas industry remains positive.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

| | 3 months Ended 30.9.2011 RM'000 | 3 months Ended 30.9.2010 RM'000 | 9 months ended 30.9.2011 RM'000 | 9 months ended 30.9.2010 RM'000 |
|-----------------------|--|--|--|--|
| Income Tax expense :- | | | | |
| Current | 18,538 | 11,520 | 27,110 | 19,577 |
| Prior period | (72) | (133) | (602) | 5,616 |
| Deferred tax | (47,408) | (30,926) | (76,340) | (90,206) |
| | <u>(28,942)</u> | <u>(19,539)</u> | <u>(49,832)</u> | <u>(65,013)</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”).

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.

- (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.

As at to-date, the Parties to the Heads of Agreements have yet to achieve financial close for the Refinery/Polypropylene Project and the Storage Project.

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) | 107,115 |
| Borrowings (unsecured) | 68,002 |
| ICP/IMTN | 130,000 |
| Bank Overdraft | 7,324 |
| Bill Payable | 141,076 |
| Hire Purchase | 5,365 |
| Revolving credit | 227,694 |
| | <u>686,576</u> |
| | |
| Long term : | |
| Borrowings (secured) | 269,805 |
| Borrowings (unsecured) | 26,636 |
| IMTN | 60,000 |
| Hire Purchase | 15,597 |
| | <u>372,038</u> |
| | <u>1,058,614</u> |

The above are also inclusive of other borrowings in foreign currency of RMB16.00 million, EURO35.63 million , CAD11.88 million, USD1.10 million and BRL11.62 million.

The exchange rates used are 1 RMB = RM 0.4996, 1 EURO = RM 4.2682, 1 CAD = RM 3.0366, 1 USD = RM 3.1885 and 1 BRL = RM 1.6969

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 2011 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 | 654,611 | 2,743 |
| -1 year to 3 years | 99,598 | (952) |
| - More than 3 years | - | - |
| | <u>754,209</u> | <u>1,791</u> |

KNM GROUP BERHAD
(Company No: 521348-H)

Exposure to foreign currency fluctuation of underlying commitments is monitored on on-going and timely basis. The Company's objective to engage in derivative instrument contract remains to protect the transactions' underlying value.

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 and import purchases by establishing the 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 value was derived based on readily available quoted market pricing as of 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 proceeds on the respective maturity date.

B11. Realised and Unrealised Profit/Losses Disclosure

| | As at 30 September 2011 | As at 31 December 2010 |
|---|--|-----------------------------------|
| | RM'000 | RM'000 |
| Total retained profit/(accumulated losses) of KNM Group and its subsidiaries | | |
| - Realised | 336,114 | 577,871 |
| - Unrealised | 72,764 | (89,639) |
| Total share of retained profit / (accumulated losses) from associated companies: | | |
| - Realised | 1,242 | 245 |
| - Unrealised | 83 | - |
| Total share of retained profit/(accumulated losses) from jointly controlled entities: | | |
| - Realised | (638) | (579) |
| - Unrealised | (2) | 66 |
| Less: Consolidation adjustments | 405,498 | 442,864 |
| Total Group retained profits/(accumulated losses) as per consolidated accounts | 815,061 | 930,828 |

B12. Material litigation

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

B13. Dividend payable

There was no dividend declared or recommended during quarter under review. However, the Board has adopted a dividend policy of distributing at least 50% of its consolidated net attributable after tax profit (subject to the availability of distributable reserves and compliance of financial covenants) with effect from financial year ending 31 December 2012.

B14. Earnings per share

| | Individual Quarter | | Cumulative Quarter | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 30 September 2011 | 30 September 2010 | 30 September 2011 | 30 September 2010 |
| Basic earnings per share | | | | |
| Net (Loss)/Profit attributable to shareholders (RM'000) | (116,295) | 56,094 | (86,424) | 110,572 |
| Number of shares at the beginning of the period ('000) | 1,001,093 | 4,004,370 | 1,001,093 | 4,004,370 |
| Effect of share consolidation | - | (2,950,228) | - | (2,950,228) |
| Effect of ESOS ('000) | - | - | - | - |
| Effect of Share Buy Back | (22,268) | (67,881) | (22,268) | (67,881) |
| Weighted average number of shares ('000) | 978,825 | 986,261 | 978,825 | 986,261 |
| Basic earnings per share (sen) | (11.88) | 5.69 | (8.83) | 11.21 |

B15. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 22 November 2011.