

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2013 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Period to date	
	Unaudited 3 months ended 31.12.2013 RM'000	Restated 3 months ended 31.12.2012 RM'000	Unaudited 31.12.2013 RM'000	Restated 31.12.2012 RM'000
Contract revenue	579,948	612,569	1,985,226	2,394,593
Operating profit	36,338	(210)	100,744	97,650
Financing costs	(19,585)	(21,312)	(54,175)	(60,414)
Interest income	630	2,324	2,700	3,758
Negative goodwill/(Goodwill)	-	(29,557)	-	(29,557)
Share of profit/ (loss) of equity accounted investees, net of tax	(3,051)	(540)	(3,513)	(144)
Profit before tax	14,332	(49,295)	45,756	11,293
Tax expense	(12,763)	8,431	(25,455)	59,052
Net profit for the period/year	1,569	(40,864)	20,301	70,345
Other comprehensive income / (loss), net of tax				
Foreign currency translation differences	78,745	26,722	166,368	(5,513)
Net investment in subsidiaries	(55,859)	19,244	46,451	(45,423)
Cash Flow hedge	2,326	825	2,157	5,228
Share of other comprehensive income of equity accounted investee	(21)	(129)	497	(239)
Fair value of available-for-sale financial assets	-	(30)	-	(30)
Other comprehensive income/ (loss) for the period/year, net of tax	25,191	46,632	215,473	(45,977)
Total comprehensive income for the period/year	26,760	5,768	235,774	24,368
Attributable to:				
Equity holders of the parent	3,064	(40,728)	23,843	72,283
Minority interest	(1,495)	(136)	(3,542)	(1,938)
	1,569	(40,864)	20,301	70,345
Total comprehensive income attributable to:				
Equity holders of the parent	28,172	5,730	240,477	27,153
Minority interest	(1,412)	38	(4,703)	(2,785)
Total comprehensive income for the period/year	26,760	5,768	235,774	24,368
Earnings per share:				
- Basic / Diluted (sen)	0.21	(3.92)	1.63	6.96

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

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2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.12.2013 RM'000	Restated As at 31.12.2012 RM'000
Assets			
Non-current assets			
Intangible Assets		588,901	559,670
Goodwill		830,048	743,975
Property, plant and equipment		826,012	866,533
Other investment, including derivative		12,758	14,183
Investments in associates		41	41
Investments in jointly-controlled entities		5,285	7,383
Deferred Tax Assets		371,479	364,634
		<u>2,634,524</u>	<u>2,556,419</u>
Current assets			
Inventories		78,481	76,811
Contracts work in progress		433,851	490,177
Trade and other receivables		615,589	535,981
Cash and cash equivalents		268,069	191,910
		<u>1,395,990</u>	<u>1,294,879</u>
TOTAL ASSETS		<u>4,030,514</u>	<u>3,851,298</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		1,445,033	1,445,033
Treasury Shares		(53,390)	(53,385)
Reserves		669,124	428,647
		<u>2,060,767</u>	<u>1,820,295</u>
Non-controlling interests		<u>(156)</u>	<u>4,247</u>
Total Equity		<u>2,060,611</u>	<u>1,824,542</u>
Non-current liabilities			
Long term payable		52,819	21,418
Long service leave liability		2,324	2,841
Loans and borrowings	B9	436,649	104,838
Deferred taxation		233,050	229,288
		<u>724,842</u>	<u>358,385</u>
Current liabilities			
Payables and accruals		519,121	592,729
Deferred income		216,727	237,762
Loans and borrowings	B9	508,459	831,597
Current tax liabilities		754	6,283
		<u>1,245,061</u>	<u>1,668,371</u>
Total liabilities		<u>1,969,903</u>	<u>2,026,756</u>
TOTAL EQUITY AND LIABILITIES		<u>4,030,514</u>	<u>3,851,298</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.38</u>	<u>1.22</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	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	Hedging Reserve RM'000	Non-Distributable AFS Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserve RM'000	Retained Profit RM'000			Total RM'000
At 1 January 2012 as previously reported	1,001,093	(53,371)	319,426	(5,172)	30	-	(466,670)	814,289	1,609,625	7,021	1,616,646
Effect of adoption MFRS 10	-	-	-	(1,890)	-	-	(170)	(611)	(2,671)	10	(2,661)
At 1 January 2012, as restated	1,001,093	(53,371)	319,426	(7,062)	30	-	(466,840)	813,678	1,606,954	7,031	1,613,985
Total comprehensive (loss)/ income for the year	-	-	-	5,228	(30)	-	(50,328)	72,283	27,153	(2,785)	24,368
Transaction with owners in their capacity as owner											
Issue of ordinary shares pursuant to Right Issue	488,921	-	(293,352)	-	-	-	-	-	195,569	-	195,569
Allocation of warrants reserve	(44,981)	-	-	-	-	44,981	-	-	-	-	-
Share Issue expenses	-	-	(9,367)	-	-	-	-	-	(9,367)	-	(9,367)
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	-	-	-	1	1
Share Buy Back	-	(14)	-	-	-	-	-	-	(14)	-	(14)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2012 (Restated)	1,445,033	(53,385)	16,707	(1,834)	-	44,981	(517,168)	885,961	1,820,295	4,247	1,824,542
As at 1 January 2013 as previously reported	1,445,033	(53,385)	16,707	56	-	44,981	(516,998)	896,315	1,832,709	4,237	1,836,946
Effect of adoption MFRS 10	-	-	-	(1,890)	-	-	(170)	(10,354)	(12,414)	10	(12,404)
At 1 January 2012, as restated	1,445,033	(53,385)	16,707	(1,834)	-	44,981	(517,168)	885,961	1,820,295	4,247	1,824,542
Total comprehensive (loss)/ income for the year	-	-	-	2,146	-	-	214,488	23,843	240,477	(4,703)	235,774
Transaction with owners in their capacity as owner											
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	300	300
Share Buy Back	-	(5)	-	-	-	-	-	-	(5)	-	(5)
Transfer from revaluation reserve on disposal of subsidiaries	-	-	-	-	-	-	(4,622)	4,622	-	-	-
Transfer from revaluation reserve on disposal of property, plant and equipment	-	-	-	-	-	-	(955)	955	-	-	-
Dividend	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2013 (Unaudited)	1,445,033	(53,390)	16,707	312	-	44,981	(308,257)	915,381	2,060,767	(156)	2,060,611

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KNM GROUP BERHAD

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED
 31 DECEMBER 2013**
 (Unaudited)

	31.12.2013	31.12.2012
	RM	RM
	'000	'000
Cash flows from operating activities		
Profit before tax	45,756	11,293
Adjustments for:		
Amortisation of intangible assets	34,562	32,743
Depreciation	9,459	11,595
Interest expense	52,492	55,463
Interest income	(2,700)	(3,758)
Gain on foreign exchange-unrealised	(79,136)	(5,130)
(Gain)/Loss on disposal of property, plant and equipment	(920)	1,101
Share of loss of in associates and jointly-controlled entities	3,513	144
Change in fair value of forward contract	1,123	3,336
Gain on disposal of subsidiaries	(11,810)	-
Impairment loss of goodwill	-	29,557
Foreseeable loss	-	13,565
Impairment of other investment	-	1,389
	<u>52,339</u>	<u>151,298</u>
Operating profit before working capital changes		
Decrease / (Increase) in working capital:		
Inventories	(2,084)	(4,691)
Receivables, deposits and prepayments	110,799	7,097
Payables and accruals and long service leave liability	(9,635)	(51,352)
Cash used in operations		
Income taxes paid	(24,299)	(48,678)
Interest paid	(2,216)	(3,438)
Interest received	2,700	3,758
	<u>127,604</u>	<u>53,994</u>
Net cash generated from operating activities		
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,014)	(49,167)
Disposal of subsidiaries, net of cash outflow	(9,515)	-
Acquisition of minority interest	-	1
Acquisition of investment in Joint-controlled entity and associates	-	(2,100)
Acquisition of other intangible assets	(1,023)	(8,012)
Acquisition of subs, net of cash acquired	-	(128,952)
Proceeds from issuance of share to minority interest	300	-
Proceeds from disposal of property, plant and equipment	18,418	312
	<u>2,166</u>	<u>(187,918)</u>
Net cash from / (used in) investing activities		
Cash flows from financing activities		
Proceeds from issuance of shares	-	195,569
Share buy back	(5)	(14)
Net repayment of bill payable	(24,026)	13,283
Repayment of hire purchase liabilities	(6,166)	(8,573)
Net drawdown/ (repayment) of term loan and revolving credit	120,338	(123,676)
Net repayment of ICP/IMTN	(95,000)	(95,000)
Interest expenses	(50,276)	(52,025)
Share issue expenses	-	(9,367)
	<u>(55,135)</u>	<u>(79,803)</u>
Net cash used in financing activities		
Net increase / (decrease) in cash and cash equivalents	74,635	(213,727)
Cash and cash equivalents at beginning of year	185,440	399,167
	<u>260,075</u>	<u>185,440</u>
Cash and cash equivalents at end of year		
	<u>260,075</u>	<u>185,440</u>
Cash & bank balances	223,741	183,022
Deposits with licensed banks	44,328	8,888
	<u>268,069</u>	<u>191,910</u>
Bank overdraft	(7,994)	(6,470)
	<u>260,075</u>	<u>185,440</u>

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

Notes to the Quarterly Interim Financial Report – 31 December 2013

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 year ended 31 December 2012. These explanatory notes attached to the interim financial statements provide explanation of events and transactions that are significant for the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2012.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2012 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 year ended 31 December 2012.

As of 1st January 2013, the Group has adopted the following new and revised MFRS, amendments and IC interpretations (collectively referred to as “pronouncements”) which are effective for annual periods beginning on or after 1st January 2013.

MFRS 10, *Consolidated Financial Statements*

MFRS 11, *Joint Arrangements*

MFRS 12, *Disclosure of Interests in Other Entities*

MFRS 13, *Fair Value Measurement*

MFRS 119, *Employee Benefits* (2011)

MFRS 127, *Separate Financial Statements* (2011)

MFRS 128, *Investments in Associates and Joint Ventures* (2011)

Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*

Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*

Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*

Other than the adoption of MFRS 10, *Consolidated Financial Statements* the adoptions of the above pronouncements do not have any impact on the financial statements of the Group.

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

Amendments to MFRS 9, *Mandatory Effective Date of MFRS 9 and Transition Disclosures*
 Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
 Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
 Amendments to MFRS 127, *Consolidated and Separate Financial Statements: Investment Entities*
 Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

MFRS 10, *Consolidated Financial Statements* introduces a new control model to identify parent-subsiary relationship. This control model is based on the elements of power, returns and the link between power and returns. The Group has assessed the new model for investments, and involvement with, all other entities. This resulted in two former associated companies, Kimma Thai Co. Ltd. and KNM Projects (Thailand) Co. Ltd. becoming subsidiaries under the dominant shareholder concept of de facto control in MFRS 10. The effects of this change in policy on consolidation have been applied retrospectively as follows:

i) Condensed consolidated Statement of Finance Position as at 31 December 2012

	Previously reported 31.12.2012 RM'000	Adoption of MFRS 10 RM'000	Restated 31.12.2012 RM'000
Assets			
Non-current assets			
Intangible Assets	559,670	-	559,670
Goodwill	743,975	-	743,975
Property, plant and equipment	866,346	187	866,533
Other investment, including derivative	14,183	-	14,183
Investments in associates	41	-	41
Investments in jointly-controlled entities	7,394	(11)	7,383
Deferred Tax Assets	364,634	-	364,634
	<u>2,556,243</u>	<u>176</u>	<u>2,556,419</u>
Current assets			
Inventories	76,811	-	76,811
Contracts work in progress	486,839	3,338	490,177
Trade and other receivables	542,461	(6,480)	535,981
Cash and cash equivalents	191,801	109	191,910
	<u>1,297,912</u>	<u>(3,033)</u>	<u>1,294,879</u>
TOTAL ASSETS	<u>3,854,155</u>	<u>(2,857)</u>	<u>3,851,298</u>

EQUITY AND LIABILITIES**Equity attributable to equity holders of the parent**

Share capital	1,445,033	-	1,445,033
Treasury Shares	(53,385)	-	(53,385)
Reserves	441,061	(12,414)	428,647
	<u>1,832,709</u>	<u>(12,414)</u>	<u>1,820,295</u>
Non-controlling interests	<u>4,237</u>	<u>10</u>	<u>4,247</u>
Total Equity	<u>1,836,946</u>	<u>(12,404)</u>	<u>1,824,542</u>
Non-current liabilities			
Long term payable	21,418	-	21,418
Long service leave liability	2,841	-	2,841
Loans and borrowings	104,838	-	104,838
Deferred taxation	229,288	-	229,288
	<u>358,385</u>	<u>-</u>	<u>358,385</u>
Current liabilities			
Payables and accruals	583,182	9,547	592,729
Deferred income	237,762	-	237,762
Loans and borrowings	831,597	-	831,597
Current tax liabilities	6,283	-	6,283
	<u>1,658,824</u>	<u>9,547</u>	<u>1,668,371</u>
Total liabilities	<u>2,017,209</u>	<u>9,547</u>	<u>2,026,756</u>
TOTAL EQUITY AND LIABILITIES	<u>3,854,155</u>	<u>(2,857)</u>	<u>3,851,298</u>

A3. Qualification of annual financial statements

There was no audit qualification in the annual financial statements of the Group for the year ended 31 December 2012.

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 year 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 year to date other than those stated below:

	RM'000
Opening Balance of ICP/IMTN outstanding as at 1 January 2013	95,000
ICP/IMTN Drawdown/(Repayment)	<u>(95,000)</u>
Balance of ICP/IMTN outstanding as at 31 December 2013	<u>-</u>

As at 31 December 2013, all the outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) has been fully repaid.

- B. As at the date of this report, the Company has repurchased a total 23,271,275 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 12 months ended 31.12.2013	Gross Profit 12 months ended 31.12.2013	EBITDA 12 months ended 31.12.2013
	RM'000	RM'000	RM'000
Asia & Oceania	637,717	106,191	69,641
Europe	1,268,144	231,808	131,992
Americas	76,944	14,675	7,988
Continuing operations	<u>1,982,805</u>	<u>352,674</u>	<u>209,621</u>
Discontinued operations	2,421	(662)	(7,067)
	<u>1,985,226</u>	<u>352,012</u>	<u>202,554</u>

	Revenue 12 months ended 31.12.2012	Gross Profit 12 months ended 31.12.2012	EBITDA 12 months ended 31.12.2012
	RM'000	RM'000	RM'000
Asia & Oceania	943,103	142,405	44,610
Europe	1,374,330	248,965	173,981
Americas	68,752	9,730	10,744
Continuing operations	<u>2,386,185</u>	<u>401,100</u>	<u>229,335</u>
Discontinued operations	8,408	(3,089)	(36,306)
	<u>2,394,593</u>	<u>398,011</u>	<u>193,029</u>

A10. Valuation of property, plant and equipment

Valuation of freehold lands of the Group have been brought forward without amendment from the financial statements for the year ended 31 December 2012.

There is no revaluation of property, plant and equipment during the year 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 year 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 year to date except as follows:-

- (1) KPS Inc., a wholly-owned Canadian subsidiary of KNM, had on 2 January 2013 incorporated a new subsidiary, KPS Technology Group LLC in Houston, Texas for a total cash consideration of USD2.00 only.
- (2) Pursuant to KPS Inc's Notice of Conversion on 20 March 2013, the principal sum of up to USD800,000 which was granted as a loan for working capital line of credit by KPS Inc to KPS Technology & Engineering LLC ("KPSLLC") in respect of the Convertible Promissory Note dated 29 May 2009, was capitalized and converted into Membership Interest in KPSLLC.

Hence, effective 20 March, 2013, KNM's effective new membership structure in KPSLLC arising from the conversion of the CPN increased from 60% to 77.78%. (Refer update per item A12.5 below).

- (3) On 4 June 2013, the Company's wholly owned subsidiary, KNM Project Services Limited ("KPSL"), had disposed of its entire 800 ordinary shares (representing 80% equity interest) in Energy Park Investments Limited ("EPIL") to Green Energy Worldwide Corporation ("GEWC") for a total cash consideration of GBP800.00 (equivalent to RM3,786.80 based on GBP1 : RM4.7335) only ("Consideration").
- (4) On 25 September 2013, KNM Process Systems Sdn Bhd ("KNMPS") and KNM International Sdn Bhd ("KNMI") (hereinafter collectively referred to as the "Vendors") have completed disposal of its entire shareholding in the following subsidiaries for a total cash consideration of BRL8 (equivalent to RM11.94) only (the "Consideration") to Telcon Telecomunicações E Informatica, LTDA.

KNM's Brazilian Group of Companies		Consideration (R\$)
i.	KNM Sistemas De Processamento Do Brasil Ltda	2.00
ii.	KNM Equipamentos SA	2.00
iii.	KNM Industrial Ltda	2.00
iv.	KNM Servicos Ltda	2.00

- (5) Pursuant to a Mutual Release Agreement executed on 28 January 2014, KNM Group Berhad's wholly owned Canadian subsidiary, KPS Inc. ("KPSI"), had terminated its joint venture with three individuals, namely Mr David K. Stevens ("David"), Mr Alan D. Mosher ("Alan") and Ms Lindsay D. Dreitzler ("Lindsay") (hereinafter collectively referred to as the "Minority Interest Holders") as a result of KPSI's acquisition of all the collective 16.66% Minority Holders' interest

in KPS Technology & Engineering LLC (“KPST”) for a total cash consideration of USD30,000.00 only. Resulting from this Acquisition, KPSI’s interest in KPST was increased to 94.44%, while the remaining 5.56% in KPST continues to be held by Ir Lee Swee Eng.

A13. Changes in contingent liabilities

There were no material changes in contingent liabilities for the Group as at the date of this announcement.

A14. Capital commitments

	Approved and contracted for RM’000	Approved but not contracted for RM’000
Property, plant and equipment	12,757	34,307
Investment	-	-
	<u>12,757</u>	<u>34,307</u>

A15. Related party transactions

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

	RM ‘000
Inter Merger Sdn Bhd (a)	
- Office rental, related charges and administrative expense	1,933
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	2,179
Tofield Realty Development Corporation (c)	
- General and civil contractor and provider of staff accommodation	515
KPS Technology & Engineering LLC(d)	
-Provision/Receipt of mechanical and engineering, general administrative and other support services	916
-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 director

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

(c) a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are director and shareholder

(d) 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 RM1.99 billion, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of RM202.55 million and profit after tax and minority interest of RM23.84 million for the year ended 31 December 2013. Compared to the previous year, the lower revenue and profit after tax and minority interest in this year was due to lower project progress recognition and less deferred tax effect. Whereas, higher EBITDA reported during the year as compared to previous year was due to retrospective consolidation effect of certain subsidiaries under revised MFRS 10 adoption.

Asia & Oceanic Segment

This segment registered lower job progress recognition.

Europe Segment

Europe's contribution remains positive operate with stable order book.

Americas Segment

Americas' contribution to the Group improved in absent of the discontinued Brazil operating units.

B2. Variation of results against preceding quarter

The Group's revenue of RM579.95 million for the quarter under review was higher by RM93.84 million against the immediate preceding quarter's revenue of RM486.11 million. Profit before taxation and minority interest reported lower at RM14.33 million as compared immediate preceding quarter's profit before taxation and minority interest of RM21.66 due to higher operating overheads.

B3. Prospects

The Board is reasonably optimistic of the Group's financial performance into the next financial year.

- The Asia & Oceanic segment will continue to focus on improving operational efficiency and productivity.
- The European segment profitability is expected to continue with its order book carried forward.
- The Americas segment is expected to remain challenging with positive outlook in absent of further performance weigh down from the discontinued Brazil operating units.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 31.12.2013 RM'000	3 months Ended 31.12.2012 RM'000	12 months Ended 31.12.2013 RM'000	12 months Ended 31.12.2012 RM'000
Income Tax expense :-				
Current	9,598	16,309	26,866	40,011
Prior period	(115)	1,319	(11,546)	1,695
Deferred tax	3,280	(26,059)	10,135	(100,758)
	12,763	(8,431)	25,455	(59,052)

The Group's effective tax rate for the financial year is higher than statutory tax rate mainly due to deferred tax effects.

The Group's effective tax rate for previous financial year was lower than the statutory tax rate mainly due to the availability of certain tax incentives.

B6. Unquoted investments and properties

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

B7. Quoted and marketable investments

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

B8. Status of corporate proposals announced but not completed

- (1) On 6 September 2012, the Company had announced the appointment of UOB Bank Limited ("UOB Bank") as the sole Manager, Underwriter and the Placement Agent for the proposed listing of its wholly owned subsidiary i.e. BORSIG Beteiligungsverwaltungsgesellschaft mbH ("BORSIG") and its related entities on the Main Board of Singapore Exchange Securities Trading Limited ("SGX-ST") BORSIG, on the Main Board of SGX-ST (the "Proposed Listing"). The Board of Directors has reviewed the proposal and decided to defer the same until market conditions improve.
- (2) On 28 November 2013, the Company had announced the proposed dissolution of the following inactive and/or dormant subsidiaries ("Affected Subsidiaries") either by way of voluntary winding up or de-registering/striking-off the Affected Subsidiaries from the respective register of companies with the relevant authorities ("Proposed Dissolution"):-

Subsidiaries	Date of Incorporation	Paid Up Capital	% Shareholding
KNM Eurasia Sdn Bhd	28 February 1992/ Malaysia	RM100,000	100
KNM Process Systems (Kazakhstan) Sdn Bhd	16 February 2005/ Malaysia	RM2	100

KNM Process Systems (Turkmenistan) Sdn Bhd	10 March 2005/ Malaysia	RM2	100
KNM Process Systems (Uzbekistan) Sdn Bhd	10 July 1995/ Malaysia	RM2	100
KNM-DP Harta Bina Sdn Bhd*	24 September 1994/ Malaysia	RM200,000	93
KNM China Pte Limited	22 January 2010/ Hong Kong	HKD100	100
Borsig Compression (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100
Borsig Valves (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100
KNM Engineering Services Private Limited	4 October 2006/ India	INR100,000	100
KNM Oil & Gas (B) Sdn Bhd	10 May 2005/ Brunei	BND100,000	100
KNM Services (Singapore) Pte Ltd	25 November 2009/ Singapore	USD1	100

**Note 1 – Both Ir Lee Swee Eng and Mr Chew Fook Sin has a collective interest of 63.15% in Tegas Klasik Sdn Bhd (“TKSB”). TKS B has an indirect interest of 7.14% in KNM-DP Harta Bina Sdn. Bhd as well as a 1.70% direct interest in KNM Group Berhad.*

The Proposed Dissolution is currently ongoing.

- (3) On 27 January 2014, it was announced that the Company intends to undertake the following corporate exercises:
- i. Proposed par value reduction via the cancellation of RM0.50 of the par value of every existing ordinary share of RM1.00 each in the issued and paid-up capital of the Company pursuant to Section 64 of the Companies Act, 1965 (“Proposed Par Value Reduction”);
 - ii. Proposed amendment to relevant clauses of the Memorandum and/or Articles of Association of the Company for the Proposed Par Value Reduction (“Proposed Amendment”); and
 - iii. Proposed establishment of an employees’ share option scheme for the eligible employees and directors of KNM and its subsidiaries (“Proposed ESOS”).

All the above Proposals are currently in progress.

- (4) On 24 February 2014, KNM Group Berhad’s wholly-owned subsidiary, KNM International Sdn Bhd (“KNMI”) had entered into a Joint Venture & Shareholders Agreement (“JVSHA”) with China Nuclear Industry 23 Construction Co Ltd (“CNI23”) to collaborate in pursuing and securing construction works for mechanical, electrical and erection related to oil and gas, power, petrochemical and renewable energy projects (“Project”) in Malaysia and South East Asia (“Territory”) (hereinafter collectively referred to as “Business”). KNMI and CNI23 intends to invest in KNM-CIW Sdn Bhd [to be renamed “CNI Engineering & Construction Malaysia Sdn Bhd” assuming that Companies Commission of Malaysia’s approval is obtained] (“JVCO”) in cash on 70% (KNMI) : 30% (CNI23) basis and upon completion of the JVSHA, the paid up capital of JVCO shall be RM1,000,000.00 (“the Investment”).

The investment is still pending fulfillment of the conditions precedent as stated in the JVSHA.

B9. Group borrowings and debt securities

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

	RM'000
Short term:	
Borrowings (secured)	57,957
Borrowings (unsecured)	154,938
Bank Overdraft	7,994
Bill Payable	196,320
Hire Purchase	14,250
Revolving credit	77,000
	<u>508,459</u>
Long term :	
Borrowings (secured)	128,016
Borrowings (unsecured)	285,997
Hire Purchase	22,636
	<u>436,649</u>
	<u>945,108</u>

The above are also inclusive of other borrowings in foreign currency of RMB 16.50 million, EURO 89.55 million and CAD 9.29 million.

The exchange rates used are 1 RMB = RM 0.5416, 1 EURO = RM 4.5066 and 1 CAD = RM 3.0862.

B10. Financial Instruments

With the adoption of MFRS 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 31 December 2013 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	310,111	(937)
-1 year to 3 years	26,483	1
- More than 3 years	-	-
	<u>336,594</u>	<u>(936)</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 FOR THE YEAR

	3 Months ended 31.12.2013 RM'000	3 Months ended 31.12.2012 RM'000	12 Months ended 31.12.2013 RM'000	12 Months ended 31.12.2012 Rm'000
(a)				
Profit for the period/year is arrived at after charging and crediting:				
(Reversal)/Allowance for impairment loss on doubtful debt	8,617	5,811	6,894	1,223
Bad debts written off	359	-	635	-
Net Loss /(Gain) on foreign exchange	(19,633)	3,270	(18,071)	(5,618)
Net Loss on derivative	5	(3,878)	1,123	3,336
Amortisation of intangible asset	9,166	8,418	34,562	32,743
Provision for warranty	(777)	(2,942)	56	(894)
(Reversal) / Provision of late delivery charges	9,657	(1,249)	9,657	(1,116)
Provision for foreseeable loss	545	7,733	545	13,565
And crediting:				
Interest income	630	2,324	2,700	3,758
Gain on disposal of subsidiaries	-	-	11,810	-
(b)				
Interest expenses	19,585	21,312	54,175	60,414
(c)				
Depreciation charge for the period/year:				
Income statement	2,230	6,661	9,459	11,595
Construction work in progress	14,774	10,089	57,789	51,041
	<u>17,004</u>	<u>16,750</u>	<u>67,248</u>	<u>62,636</u>

B12. Realised and Unrealised Profit/Losses Disclosure

	As at 31 December 2013 RM'000	As at 31 December 2012 RM'000
Total retained profit of KNM Group and its subsidiaries		
- Realised	441,826	490,645
- Unrealised	(152,029)	(97,544)
Total share of retained profit / (accumulated losses) from associated companies:		
- Realised	(615)	671
- Unrealised	118	(123)
Total share of accumulated losses from jointly controlled entities:		
- Realised	(2,841)	(2,989)
- Unrealised	(1,476)	(10)
Add: Consolidation adjustments	630,398	495,311
Total Group retained profits as per consolidated accounts	915,381	885,961

B13. Material litigation

As at the date of this announcement, there were no material litigation since the last annual balance sheet date except for the following:-

Shah Alam High Court (Commercial Division)
Suit No.: 28-461-11/2012
KNM Process Systems Sdn Bhd (Petitioner) vs Mission Biofuels Sdn Bhd (Respondent)

KNM Group Berhad's wholly-owned subsidiary, KNM Process Systems Sdn Bhd ("KNMPS") had on, 9 November 2012 served a Winding Up Petition under Section 218(1)(e) & (i) and Section 218(2)(c) of the Companies Act 1965 dated 1 November 2012 (the "KNMPS Petition") against Mission Biofuels Sdn Bhd ("Mission Biofuels").

Mission Biofuels is indebted to KNMPS for, inter alia, a sum of RM50,662,057.80 for goods sold and delivered and works carried out by KNMPS for Mission Biofuels pursuant to an EPCC Contract dated 25 July 2007 for the development of a Biodiesel Plant located in Kuantan Port.

The KNM Petition was heard and dismissed by the Courts with costs on 12 March 2013 on the ground that the Court was not satisfied that, taking into account Mission Biofuels' contingent and prospective liabilities, Mission Biofuels was unable to pay its debts.

On 15 March 2013 KNMPS filed an appeal against the dismissal.

On 20th November 2013 KNMPS sent a letter to the Court of Appeal requesting the court to fix a date for case management or hearing of the appeal.

The Court of Appeal has yet to fix a hearing date for the appeal.

Shah Alam High Court (Commercial Division)
 Suit No.: 28-179-04/2013
 Mission Biofuels Sdn Bhd (Petitioner) vs KNM Process Systems Sdn Bhd (Respondent)

On 19 April 2013, KNM Group Berhad's wholly-owned subsidiary, KNM Process Systems Sdn Bhd (“KNMPS”) was served with a Petition for winding-up under Section 218(1)(e) & (i) and Section 218(2)(c) of the Companies Act 1965 (the “Act”) dated 15 April 2013 (the “Mission Petition”) by Mission Biofuels Sdn Bhd (“Mission Biofuels”) purportedly in respect of works done by KNMPS pursuant to an EPCC Contract dated 25 July 2007 for the development of a Biodiesel Plant located in Kuantan Port.

The Mission Petition contends that KNMPS is allegedly indebted to Mission Biofuels for the sum of RM12.2 million together with interest and cost being the alleged Liquidated Ascertained Damages claimed by Mission Biofuels as a result of KNMPS’s purported failure to achieve Final Performance Acceptance under the EPCC.

The Mission Petition was heard and struck out by the Courts with costs on 9 May 2013 on the ground that the petition was not only without basis and therefore frivolous and vexatious, but also a clear abuse of process of court.

On 14 May 2013 Mission filed an appeal against the order of the court striking out the petition.

The Court of Appeal has yet to fix a hearing date for the appeal.

B14. Dividend payable

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

B15. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	3,064	(40,728)	23,843	72,283
Number of shares at the beginning of the year ('000)	1,490,013	1,001,093	1,490,013	1,001,093
Effect of share consolidation	-	-	-	-
Effect of Right Issue ('000)	-	60,278	-	60,278
Effect of Share Buy Back	(23,265)	(23,251)	(23,265)	(23,251)
Weighted average number of shares ('000)	1,466,748	1,038,120	1,466,748	1,038,120
Basic earnings per share (sen)	0.21	(3.92)	1.63	6.96

B16. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 28 February 2014.