

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Period to date	
	Unaudited 3 months ended 31.12.2014 RM'000	Audited 3 months ended 31.12.2013 RM'000	Unaudited 31.12.2014 RM'000	Audited 31.12.2013 RM'000
Contract revenue	451,236	575,131	1,865,131	1,986,427
Operating profit	68,508	41,891	179,403	101,461
Financing costs	(12,251)	(19,563)	(53,092)	(54,158)
Interest income	958	630	2,996	2,700
Impairment of goodwill	(6,672)	-	(6,672)	-
Share of (loss)/profit of equity accounted investees, net of tax	(621)	(3,042)	804	(3,504)
Profit before tax	49,922	19,916	123,439	46,499
Tax expense	(46,481)	(13,899)	(80,184)	(26,591)
Net profit for the period	3,441	6,017	43,255	19,908
Other comprehensive income/(loss), net of tax				
Foreign currency translation differences	76,663	80,815	(18,781)	165,767
Net investment in subsidiaries	(36,720)	(55,860)	(93,605)	46,450
Revaluation of property, plant and equipment	61,987	-	61,987	-
Cash Flow hedge	(2,364)	2,345	(5,399)	2,157
Share of other comprehensive income of equity accounted investee	455	(31)	142	487
Other comprehensive income/(loss) for the period, net of tax	100,021	27,269	(55,656)	214,861
Total comprehensive income/(loss) for the period	103,462	33,286	(12,401)	234,769
Attributable to:				
Equity holders of the parent	3,965	7,512	45,690	23,450
Minority interest	(524)	(1,495)	(2,435)	(3,542)
	3,441	6,017	43,255	19,908
Total comprehensive income/(loss) attributable to:				
Equity holders of the parent	104,455	34,696	(7,972)	239,470
Minority interest	(993)	(1,410)	(4,429)	(4,701)
Total comprehensive income/(loss) for the period	103,462	33,286	(12,401)	234,769
Earnings per share:				
- Basic / Diluted (sen)	0.26	0.51	2.94	1.60

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

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2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.12.2014 RM'000	Audited As at 31.12.2013 RM'000
Assets			
Non-current assets			
Intangible Assets		519,036	588,901
Goodwill		772,885	830,048
Property, plant and equipment		859,525	834,794
Other investment, including derivative		14,705	12,758
Investments in associates		24	30
Investments in jointly-controlled entities		5,743	4,561
Deferred Tax Assets		340,360	370,248
		<u>2,512,278</u>	<u>2,641,340</u>
Current assets			
Inventories		75,873	77,905
Contracts work in progress		496,450	449,191
Trade and other receivables		645,928	607,148
Cash and cash equivalents		213,341	268,301
		<u>1,431,592</u>	<u>1,402,545</u>
TOTAL ASSETS		<u>3,943,870</u>	<u>4,043,885</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		774,537	1,445,033
Treasury Shares		(53,402)	(53,390)
Reserves		1,445,601	668,112
		<u>2,166,736</u>	<u>2,059,755</u>
Non-controlling interests		<u>(4,585)</u>	<u>(156)</u>
Total Equity		<u>2,162,151</u>	<u>2,059,599</u>
Non-current liabilities			
Long term payable		52,142	52,819
Long service leave liability		2,886	2,324
Loans and borrowings	B9	233,099	454,263
Deferred taxation		219,697	233,050
		<u>507,824</u>	<u>742,456</u>
Current liabilities			
Payables and accruals		551,852	531,710
Deferred income		155,674	216,653
Loans and borrowings	B9	565,491	492,758
Current tax liabilities		878	709
		<u>1,273,895</u>	<u>1,241,830</u>
Total liabilities		<u>1,781,719</u>	<u>1,984,286</u>
TOTAL EQUITY AND LIABILITIES		<u>3,943,870</u>	<u>4,043,885</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.32</u>	<u>1.38</u>

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KNM GROUP BERHAD

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
 ENDED 31 DECEMBER 2014**

	Attributable to equity holders of the parent							Distributable Reserve			Total equity RM'000
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000	Non-Distributable			Retained Profit RM'000	Total RM'000	Minority Interest RM'000		
Hedging Reserve RM'000				AFS Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserve RM'000					
As at 1 January 2013	1,445,033	(53,385)	16,707	(1,834)	-	44,981	(517,112)	885,900	1,820,290	4,245	1,824,535
Other comprehensive income for the year	-	-	-	2,157	-	-	213,863	-	216,020	(1,159)	214,861
Profit for the year	-	-	-	-	-	-	-	23,450	23,450	(3,542)	19,908
Total comprehensive income for the year	-	-	-	2,157	-	-	213,863	23,450	239,470	(4,701)	234,769
Transaction with owners in their capacity as owner											
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	300	300
Share buy back	-	(5)	-	-	-	-	-	-	(5)	-	(5)
Realisation of revaluation reserve on disposal of subsidiaries	-	-	-	-	-	-	(4,622)	4,622	-	-	-
As at 31 December 2013 (Audited)	1,445,033	(53,390)	16,707	323	-	44,981	(307,871)	913,972	2,059,755	(156)	2,059,599
As at 1 January 2014	1,445,033	(53,390)	16,707	323	-	44,981	(307,871)	913,972	2,059,755	(156)	2,059,599
Other comprehensive income for the year	-	-	-	(5,399)	-	-	(46,305)	(1,958)	(53,662)	(1,994)	(55,656)
Profit for the year	-	-	-	-	-	-	-	45,690	45,690	(2,435)	43,255
Total comprehensive income for the year	-	-	-	(5,399)	-	-	(46,305)	43,732	(7,972)	(4,429)	(12,401)
Transaction with owners in their capacity as owner											
Share Buy Back	-	(12)	-	-	-	-	-	-	(12)	-	(12)
Par value reduction	(745,007)	-	745,007	-	-	-	-	-	-	-	-
Issuance of ordinary share - Private Placement	73,337	-	29,335	-	-	-	-	-	102,672	-	102,672
- ESOS	1,174	-	376	-	-	-	-	-	1,550	-	1,550
Share based payments	-	-	-	-	-	-	12,902	-	12,902	-	12,902
Transfer to share premium for share option exercised	-	-	869	-	-	-	(869)	-	-	-	-
Share issue expenses	-	-	(2,159)	-	-	-	-	-	(2,159)	-	(2,159)
As at 31 December 2014 (Unaudited)	774,537	(53,402)	790,135	(5,076)	-	44,981	(342,143)	957,704	2,166,736	(4,585)	2,162,151

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

KNM GROUP BERHAD

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED**31 DECEMBER 2014****(Unaudited)**

	31.12.2014	31.12.2013
	RM	RM
	'000	'000
Cash flows from operating activities		
Profit before tax	123,439	46,499
Adjustments for:		
Amortisation of intangible assets	35,597	34,562
Share based payment	12,902	-
Depreciation	9,347	11,656
Interest expense	48,759	48,633
Interest income	(2,996)	(2,700)
Gain on foreign exchange-unrealised	(60,116)	(81,652)
(Gain)/Loss on disposal of property, plant and equipment	(4,133)	2,091
Share of (profit)/loss of in associates and jointly-controlled entities	(804)	3,504
Change in fair value of forward contract	9,724	1,185
Property, plant and equipment written off	425	-
Provision for foreseeable losses	477	987
Reversal of impairment of other investment	(266)	-
Impairment of goodwill	6,672	-
Impairment of other investments	-	3,339
Impairment of property, plant and equipment	1,139	1,958
Gain on disposal of subsidiaries	-	(11,810)
Gain on disposal of other investment	(2,437)	-
Reversal of impairment on property, plant and equipment	(3,318)	-
	<hr/>	<hr/>
Operating profit before working capital changes	174,411	58,252
Decrease / (Increase) in working capital:		
Inventories	2,032	(1,508)
Receivables, deposits and prepayments	(28,323)	100,274
Payables and accruals and long service leave liability	(55,476)	(845)
Cash used in operations		
Income taxes paid	(52,160)	(24,299)
Interest paid	(840)	(2,216)
Interest received	2,996	2,700
	<hr/>	<hr/>
Net cash generated from operating activities	42,640	132,358
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,718)	(8,005)
Proceed from disposal of other investment	5,761	-
Proceed from disposal of subsidiaries	-	(591)
Acquisition of other investments	-	(5,287)
Acquisition of other intangible assets	(902)	(1,102)
Proceeds from issuance of share to minority interest	-	300
Proceeds from disposal of property, plant and equipment	10,559	6,558
	<hr/>	<hr/>
Net cash used in investing activities	(3,300)	(8,127)
Cash flows from financing activities		
Proceeds from issuance of shares	104,222	-
Share buy back	(13)	(5)
Net repayment of bill payable	(77,778)	(24,026)
Repayment of hire purchase liabilities	(9,171)	(6,167)
Net (repayment)/drawdown of term loan and revolving credit	(59,133)	123,531
Net repayment of ICP/IMTN	-	(95,000)
Interest expenses	(47,919)	(46,417)
Share issue expenses	(2,159)	-
	<hr/>	<hr/>
Net cash used in financing activities	(91,951)	(48,084)
Net (decrease)/increase in cash and cash equivalents	(52,611)	76,147
Cash and cash equivalents at beginning of period	261,587	185,440
	<hr/>	<hr/>
Cash and cash equivalents at end of period	208,976	261,587
	<hr/>	<hr/>
Cash & bank balances	189,901	223,973
Deposits with licensed banks	23,440	44,328
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	213,341	268,301
Bank overdraft	(4,365)	(6,714)
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	208,976	261,587

Notes to the Quarterly Interim Financial Report – 31 December 2014

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 2013. 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 2013.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2013 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 2013.

As of 1st January 2014, the Group has adopted the following new and revised MFRS, amendments and IC interpretations (collectively referred to as “pronouncements”) which are effective for annual period beginning on or after 1st January 2014.

Amendments to MFRS 10	<i>Consolidated Financial Statements: Investment Entities</i>
Amendments to MFRS 12	<i>Disclosure of Interests in Other Entities: Investment Entities</i>
Amendments to MFRS 127	<i>Separate Financial Statements (2011): Investment Entities</i>
Amendments to MFRS 132	<i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
Amendments to MFRS 136	<i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to MFRS 139	<i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
IC Interpretation 21	<i>Levies</i>

The adoptions of the above pronouncements do not have any impact on the 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 year ended 31 December 2013.

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 period to date.

B. During the financial year ended 31 December 2014, the Company has repurchased a total 23,291,275 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 31.12.2014 RM'000	Gross Profit 12 months ended 31.12.2014 RM'000	EBITDA 12 months ended 31.12.2014 RM'000
Asia & Oceania	439,544	142,328	136,629
Europe	1,274,849	277,415	167,143
Americas	106,519	24,406	21,585
Continuing operations	1,820,912	444,149	325,357
Discontinued operations	44,219	(19,373)	(44,407)
	1,865,131	424,776	280,950

	Revenue 12 months ended 31.12.2013 RM'000	Gross Profit 12 months ended 31.12.2013 RM'000	EBITDA 12 months ended 31.12.2013 RM'000
Asia & Oceania	540,376	130,492	108,457
Europe	1,268,144	231,809	131,866
Americas	76,944	14,675	7,988
Continuing operations	1,885,464	376,976	248,311
Discontinued operations	100,963	(21,922)	(44,969)
	1,986,427	355,054	203,342

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.

The carrying value of Freehold land, leasehold land and buildings as at 31 December 2014 was reported based on revaluated amount derived from revaluation exercises carried out in quarter 4, 2014 by independent qualified valuers using the comparison method to reflect their fair value.

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, except as follows:-

1. On 5 February 2015, KNM Process Systems Sdn Bhd (“KNMPS” or the “Vendor”) has entered into a Sale and Purchase Agreement (“SPA”) with Northfield Global Limited (the “Purchaser”) for the disposal of *inter alia* the Vendor's entire business and equity interest in KNM Pty Ltd group (“KPL Group”) for a total cash consideration of AUD2.00 only (equivalent to RM5.54).

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 follow:-

1. The de-registration/striking-off the Affected Subsidiaries as per item B8(1) are currently ongoing.
2. 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 in Malaysia and South East Asia.

KNMI and CNI23 have duly invested in CNI Engineering & Construction Malaysia Sdn Bhd (formerly known as KNM-CIW Sdn Bhd) (“JVCO”) in cash on 70% (KNMI) : 30% (CNI23) basis based on the issued and paid up capital of RM1,000,000.00 (“the Investment”).

3. On 30 May 2014, KNM’s wholly-owned subsidiary, KNM Process Systems Sdn Bhd, had executed an Agreement of Mutual Termination to *inter alia*, mutually terminate its Shareholders’ Agreement dated 8 October 2008 with Prosernat SA in respect of the management and operations of their joint venture entity, KPN Gas Technology Sdn Bhd (now known as Prosernat (M) Sdn Bhd).
4. On 10 November 2014, the Company had incorporated a wholly-owned subsidiary, Splendid Investments Limited (“Splendid”) in Labuan, and had subscribed for 1 ordinary share for cash SGD1.00 (about RM2.58) only.
5. On 3 December 2014, KNM International Sdn Bhd (“KNMI”) had executed an Agreement of Mutual Termination with Aveng (Africa) Proprietary Limited (“Aveng Africa”) to *inter alia* terminate the Shareholders’ Agreement dated 1 December 2010 (the “Shareholders’ Agreement”) in respect of the management and operations of the joint venture entity known as KNM Grinaker-LTA Proprietary Limited (“KGL”). In tandem with the Mutual Termination, the parties have on the same date, also entered into a Sale and Purchase Agreement (the “SPA”) for the disposal of KNMI’s entire equity interest in KGL to Aveng Africa, comprising 4,990 ordinary shares of ZAR1 each for a total cash consideration of ZAR4,990 (approximately RM1,540).

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	6,581	13,473

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	1,770
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	2,625
Tofield Realty Development Corporation (c)	
- General and civil contractor and provider of staff accommodation	399

(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

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

B1. Review of performance

The Group achieved revenue of RM1.87 billion, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of RM280.95 million and profit after tax and minority interest of RM45.69 million for the year ended 31 December 2014. The Group recorded a higher profit after tax and minority interest compared to the previous year was mainly due to improved margin contribution.

Asia & Oceanic Segment

This segment registered lower revenue recognition, however with improved margin contribution.

Europe Segment

Europe's contribution remains positive with its stable order book and higher margin contribution.

Americas Segment

Americas' contribution to the Group improved due to improved order book.

B2. Variation of results against preceding quarter

The Group's revenue of RM451.24 million for the quarter under review was higher by RM20.56 million against the immediate preceding quarter's revenue of RM430.68 million. The Group registered higher profit before taxation of RM49.92 million as compared to immediate preceding quarter's profit before taxation of RM30.50 million on improved margin contribution.

B3. Prospects

- The Asia & Oceanic segment is improving its order book with the orders secured from PIC project.
- The European and Americas segment profitability is expected to continue with its stable order book.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 31.12.2014 RM'000	3 months Ended 31.12.2013 RM'000	12 months Ended 31.12.2014 RM'000	12 months Ended 31.12.2013 RM'000
Income Tax expense :-				
Current period	26,543	9,551	49,704	26,819
Prior period	4,810	(115)	3,899	(11,546)
Deferred tax	15,128	4,463	26,581	11,318
	46,481	13,899	80,184	26,591

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

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 significant 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

- 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	Status
KNM Eurasia Sdn Bhd	28 February 1992/ Malaysia	RM100,000	100	Completed
KNM Process Systems (Kazakhstan) Sdn Bhd	16 February 2005/ Malaysia	RM2	100	Completed
KNM Process Systems (Turkmenistan) Sdn Bhd	10 March 2005/ Malaysia	RM2	100	Completed
KNM Process Systems (Uzbekistan) Sdn Bhd	10 July 1995/ Malaysia	RM2	100	In progress
KNM-DP Harta Bina Sdn Bhd*	24 September 1994/ Malaysia	RM200,000	93	In progress
KNM China Pte Limited	22 January 2010/ Hong Kong	HKD100	100	Completed
Borsig Compression (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100	Completed

Borsig Valves (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100	Completed
KNM Engineering Services Private Limited	4 October 2006/ India	INR100,000	100	In progress
KNM Oil & Gas (B) Sdn Bhd	10 May 2005/ Brunei	BND100,000	100	Completed
KNM Services (Singapore) Pte Ltd	25 November 2009/ Singapore	USD1	100	Completed

**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 Bhd.*

2. Pursuant to the Company’s announcements on 17 October 2014 and 27 November 2014, KNM had proposed to undertake the following:-
- Proposed renounceable rights issue of up to 430,490,762 new ordinary shares of RM0.50 each in KNM (“KNM Share(s) or “Share(s)” (“Rights Share(s)”) on the basis of 1 Rights Share for every 5 existing KNM Shares held on an Entitlement Date to be determined later together with up to 215,245,381 new free detachable warrants (“Warrant(s) B”) on the basis of 1 Warrant B for every 2 Rights Shares subscribed (“Proposed Rights Issue With Warrants”);
 - Proposed increase in the Authorised Share Capital of KNM from RM1,125,000,000 comprising 2,250,000,000 KNM Shares to RM2,500,000,000 comprising of 5,000,000,000 KNM Shares (“Proposed Increase in Authorised Share Capital”);
 - Proposed Amendments to the Memorandum of Association of KNM (“Proposed Amendment”); and
 - Proposed Granting of KNM’s Employees Share Options to Dato’ Adnan Bin Wan Mamat pursuant to the Company’s existing Employees Share Option Scheme (“Proposed ESOS Grant”).

The Proposed Rights Issue With Warrants, Proposed Increase in Authorised Share Capital, Proposed Amendment and Proposed ESOS Grant are collectively referred to as the “Proposals”.

The listing application in relation to the Proposals have been submitted to Bursa Malaysia Securities Berhad (“Bursa Securities”) on 12 November 2014. Bursa Securities’ approval has been obtained on 21 November 2014 and the approval from the Company’s shareholders in respect of the said Proposals have been duly obtained at the Extraordinary General Meeting of the Company held on 19 December 2014.

On 17 February 2015, the Board had announced that the price of the Rights Shares has been fixed at RM0.50 per rights share, while the exercise price for the conversion of one Warrant B into one KNM share was fixed at RM1.00. The matter is now pending issuance and submission of the Abridged Prospectus to be approved by the Securities Commission of Malaysia (“SC”).

3. On 6 November 2014, KNM Group Berhad has signed an Agreement of Mutual Termination to *inter alia*, mutually terminate the Shareholders’ cum Joint Venture Agreement dated 13 December 2012 (the “Shareholders’ Agreement”) with HMS Oil & Gas Sdn Bhd (“HMS”) in respect of the management and operations of the joint venture entity known as KNM HMS Energy Sdn Bhd (“JVCO”).

The parties have agreed to voluntarily wind-up the JVCO and the voluntary winding up process is currently ongoing.

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)	320,836
Borrowings (unsecured)	47,089
Bank Overdraft	4,365
Bill Payable	118,542
Hire Purchase	11,159
Revolving credit	63,500
	<u>565,491</u>
Long term :	
Borrowings (secured)	216,134
Borrowings (unsecured)	409
Hire Purchase	16,556
	<u>233,099</u>
	<u>798,590</u>

Included in borrowings are certain borrowings denominated in foreign currency of RMB 20.00 million, EURO 76.51 million, CAD 6.10 million and USD 15.55 million.

The exchange rates used are 1 RMB = RM 0.5634, 1 EURO = RM 4.2303, 1 CAD = RM 3.0089 and 1 USD = RM3.4970.

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 2014 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	248,760	10,058
-1 year to 3 years	31,296	1,949
- More than 3 years	-	-
	<u>280,056</u>	<u>12,007</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 31.12.2014 RM'000	3 Months ended 31.12.2013 RM'000	12 Months ended 31.12.2014 RM'000	12 Months ended 31.12.2013 RM'000
(a)				
Profit for the year is arrived at after charging and crediting:				
Allowance / (Reversal) for impairment loss on doubtful debt	5,538	(1,679)	5,538	(3,402)
Bad debts written off	1,484	196	2,882	472
Net Loss / (Gain) on foreign exchange	(31,688)	(22,723)	(50,527)	(20,553)
Net Loss / (Gain) on derivative	2,241	122	9,724	1,185
Amortisation of intangible asset	8,682	9,166	35,597	34,562
Provision / (Reversal) for warranty	2,719	(771)	3,472	62
Provision / (Reversal) of late delivery charges	4,092	9,657	2,286	9,657
Provision for foreseeable loss	477	987	477	987
Share based payment	7,367	-	12,902	-
Impairment of goodwill	6,672	-	6,672	-
Impairment of property, plant and equipment	1,139	1,958	1,139	1,958
And crediting:				
Interest income	958	630	2,996	2,700
Gain on disposal of other investment	-	-	2,437	-
Gain on disposal of subsidiaries	-	-	-	11,810
Reversal of impairment on property, plant and equipment	3,318	-	3,318	-
(b)				
Finance costs	12,251	19,563	53,092	54,158
(c)				
Depreciation charge for the period:				
Income statement	3,252	4,401	9,347	11,656
Construction work in progress	13,184	12,615	56,603	55,663
	<u>16,436</u>	<u>17,016</u>	<u>65,950</u>	<u>67,319</u>

B12. Realised and Unrealised Profit/Losses Disclosure

	As at 31 December 2014 RM'000	As at 31 December 2013 RM'000
Total retained profit of KNM Group and its subsidiaries		
- Realised	600,953	621,697
- Unrealised	(180,582)	(148,004)
Total share of accumulated losses from associated companies:		
- Realised	(4)	(10)
- Unrealised	-	-
Total share of retained profit / (accumulated losses) from joint venture entities:		
- Realised	(2,995)	(3,446)
- Unrealised	(16)	(1,358)
Add: Consolidation adjustments	540,348	445,093
Total Group retained profits as per consolidated accounts	957,704	913,972

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:-

**1. Shah Alam High Court (Commercial Division) Suit No.: 28-461-11/2012
Court of Appeal Civil Appeal No.: B-02-713-03/2013
KNM Process Systems Sdn Bhd v. Mission Biofuels Sdn Bhd**

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

The petition was heard and dismissed by the High Court with cost on 12 March 2013. An appeal was filed at the Court of Appeal, which was dismissed with cost on 17 November 2014.

KNM has filed for leave to appeal at the Federal Court against the decision of the Court of Appeal.

**2. Shah Alam High Court (Commercial Division) Suit No. : 28-179-04/2013
Court of Appeal No.: B-02-1164-05/2013
Mission Biofuels v. KNMPS**

On 19 April 2013, KNMPS was served with a Winding Up Petition under Section 218(1) (e) & (i) and Section 218 (2) (c) of the Act pursuant to an EPCC Contract dated 25 July 2007 for the development of a Biodiesel Plant located in Kuantan Port ("EPCC Contract").

The petition was struck out by the High Court with cost on 9 May 2013.

On 14 May 2013 Mission filed an appeal against the said decision. On 5 January 2015, the Court of Appeal dismissed Mission's appeal with cost.

Mission has filed for leave to appeal to the Federal Court against the decision of the Court of Appeal.

3. In the Matter of Arbitration Between KNMPS (Claimant) and Mission Biofuels (Respondent)

KNMPS had on 30 April 2014, filed its Points of Claim in the Arbitration proceedings as aforesaid against Mission Biofuels Sdn Bhd, in connection with the EPCC Contract. This Arbitration is part of KNM Group's on-going litigation action to protect and preserve KNMPS' right and monetary claims for various works and services provided in respect of the EPCC Contract. KNMPS is claiming in arbitration for approximately RM120 million.

The hearing of arbitration proceeding is scheduled on 30 March 2015 and expected to be completed on 16 April 2015.

4. Shah Alam High Court (Commercial Division)(Suit No.: 24NCVC-688-04/2013) Court of Appeal Civil Appeal No.: W-02(NCVC)(A)-808-05/2013 KNMPS v. Mission Biofuels

On 5 April 2013, KNMPS filed an application for a declaration of a valid lien in favour of KNMPS in respect of the Biodiesel Plant. On 31 March 2014, the High Court dismissed KNMPS application and an appeal was filed in the Court of Appeal, Putrajaya. On 29 October 2014, the Court of Appeal unanimously reaffirmed KNMPS right to an equitable lien over the Biodiesel Plant owned by Mission Biofuels, in connection with the EPCC Contract.

Mission's application for leave to appeal to the Federal Court is pending.

B14. Dividend payable

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

B15. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	3,965	7,512	45,690	23,450
Number of shares at the beginning of the year ('000)	1,490,013	1,490,014	1,490,013	1,490,014
Issuance of share – Private Placement	87,201	-	87,201	-
Effect of Share Buy Back	(23,278)	(23,265)	(23,278)	(23,265)
Share option exercised	710	-	710	-
Weighted average number of shares (‘000)	<u>1,554,646</u>	<u>1,466,749</u>	<u>1,554,646</u>	<u>1,466,749</u>
Basic earnings per share (sen)	0.26	0.51	2.94	1.60

B16. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 25 February 2015.