

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30 JUNE 2018 (Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative year to date	
	Unaudited 3 months ended 30.06.2018 RM'000	(Restated) Unaudited 3 months ended 30.06.2017 RM'000	Unaudited 30.06.2018 RM'000	(Restated) Unaudited 30.06.2017 RM'000
Revenue	<u>376,753</u>	<u>357,978</u>	<u>714,512</u>	<u>677,860</u>
Operating (loss)/ profit	(21,103)	7,573	(20,934)	20,864
Finance costs	(14,690)	(7,558)	(29,170)	(18,648)
Interest income	442	405	905	591
Share of profit of equity-accounted associates and joint ventures, net of tax	3,285	1,033	2,583	1,465
(Loss)/Profit before tax	<u>(32,066)</u>	<u>1,453</u>	<u>(46,616)</u>	<u>4,272</u>
Tax expense	(2,550)	(2,301)	(6,865)	(4,036)
Net (loss)/profit for the period	<u>(34,616)</u>	<u>(848)</u>	<u>(53,481)</u>	<u>236</u>
Other comprehensive (expense)/income, net of tax				
Foreign currency translation differences for foreign operations	22,536	18,581	(43,511)	4,539
Hedge of net investment in subsidiaries	(26,002)	32,921	(14,929)	40,288
Cash flow hedge	336	1,126	(3,121)	3,428
Realisation of revaluation reserve on property, plant and equipment written off	-	(1,339)	-	-
Share of gain of equity-accounted associates and joint ventures	(11)	1,347	107	1,347
Other comprehensive (expense)/income for the period, net of tax	<u>(3,141)</u>	<u>52,636</u>	<u>(61,454)</u>	<u>49,602</u>
Total comprehensive (expense)/income for the period	<u>(37,757)</u>	<u>51,788</u>	<u>(114,935)</u>	<u>49,838</u>
Attributable to:				
Owners of the Company	(33,644)	(912)	(52,067)	(365)
Non-controlling interests	(972)	64	(1,414)	601
	<u>(34,616)</u>	<u>(848)</u>	<u>(53,481)</u>	<u>236</u>
Total comprehensive (loss)/income attributable to:				
Owners of the Company	(36,449)	50,710	(113,431)	47,961
Non-controlling interests	(1,308)	1,078	(1,504)	1,877
Total comprehensive (expense)/income for the period	<u>(37,757)</u>	<u>51,788</u>	<u>(114,935)</u>	<u>49,838</u>
Loss per share:				
- Basic / Diluted (sen)	(1.43)	(0.04)	(2.22)	(0.02)

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 FINANCIAL POSITION

	NOTE	Unaudited As at 30.06.2018 RM'000	Restated As at 31.12.2017 RM'000	Restated As at 1.1.2017 RM'000
Assets				
Non-current assets				
Other intangible assets		468,066	496,502	1,404,817
Goodwill		893,561	918,308	894,502
Property, plant and equipment		1,351,474	1,393,757	512,071
Other investments, including derivatives		4,130	5,467	525
Investments in associates		21	21	22
Investments in joint ventures		8,343	5,479	3,098
Deferred tax assets		344,220	344,243	347,858
		<u>3,069,815</u>	<u>3,163,777</u>	<u>3,162,893</u>
Current assets				
Inventories		149,315	161,966	128,268
Contract work in progress		377,187	356,504	360,032
Trade and other receivables		464,156	479,304	581,638
Cash and bank balances		305,809	235,638	419,183
		<u>1,296,467</u>	<u>1,233,412</u>	<u>1,489,121</u>
TOTAL ASSETS		<u>4,366,282</u>	<u>4,397,189</u>	<u>4,652,014</u>
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		1,883,498	1,883,513	1,005,617
Treasury shares		(53,425)	(53,425)	(53,422)
Reserves		421,714	535,122	1,408,537
		<u>2,251,787</u>	<u>2,365,210</u>	<u>2,360,732</u>
Non-controlling interests		<u>12,010</u>	<u>13,514</u>	<u>3,455</u>
Total Equity		<u>2,263,797</u>	<u>2,378,724</u>	<u>2,364,187</u>
Non-current liabilities				
Long term payables		8,482	8,976	10,589
Long service leave liability		7,650	7,574	7,097
Loans and borrowings	B9	904,093	701,911	839,695
Deferred tax liabilities		252,520	262,565	228,410
		<u>1,172,745</u>	<u>981,026</u>	<u>1,085,791</u>
Current liabilities				
Trade and other payables		448,677	431,731	597,881
Deferred income		86,118	114,571	120,383
Loans and borrowings	B9	392,545	487,055	481,704
Current tax liabilities		2,400	4,082	2,069
		<u>929,740</u>	<u>1,037,439</u>	<u>1,202,037</u>
Total liabilities		<u>2,102,485</u>	<u>2,018,464</u>	<u>2,287,827</u>
TOTAL EQUITY AND LIABILITIES		<u>4,366,282</u>	<u>4,397,189</u>	<u>4,652,014</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.96</u>	<u>1.01</u>	<u>1.09</u>

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KNM GROUP BERHAD

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2018

	Attributable to equity holders of the parent						Retained Earnings RM'000	Total RM'000	Non-controlling Interest RM'000	Total equity RM'000
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000	Hedging Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserve RM'000				
As at 1 January 2017	1,005,617	(53,422)	782,971	(2,337)	72,449	(101,112)	681,252	2,385,418	3,455	2,388,873
- as previously reported										
Effect of adopting Companies Act 2016	782,971	-	(782,971)	-	-	-	-	-	-	-
Effect of adopting MFRS	-	-	-	-	-	-	(24,686)	(24,686)	-	(24,686)
As at 1 January 2017 (Restated)	1,788,588	(53,422)	-	(2,337)	72,449	(101,112)	656,566	2,360,732	3,455	2,364,187
Other comprehensive income for the year	-	-	-	3,428	-	44,898	-	48,326	1,276	49,602
Loss for the period	-	-	-	-	-	-	(365)	(365)	601	236
Total comprehensive income/(expense) for the year	-	-	-	3,428	-	44,898	(365)	47,961	1,877	49,838
Transactions with owners of the Company										
Share buy-back	-	(3)	-	-	-	-	-	(3)	-	(3)
Share-based payment	-	-	-	-	-	210	-	210	-	210
As at 30 June 2017, restated (Unaudited)	1,788,588	(53,425)	-	1,091	72,449	(56,004)	656,201	2,408,900	5,332	2,414,232
As at 1 January 2018	1,883,513	(53,425)	-	(1,902)	27,468	(97,677)	638,245	2,396,222	13,514	2,409,736
- as previously reported										
Effect of adopting MFRS	-	-	-	-	-	-	(31,012)	(31,012)	-	(31,012)
As at 1 January 2018 (Restated)	1,883,513	(53,425)	-	(1,902)	27,468	(97,677)	607,233	2,365,210	13,514	2,378,724
Other comprehensive expense for the year	-	-	-	(1,453)	-	(59,911)	-	(61,364)	(90)	(61,454)
Loss for the year	-	-	-	-	-	-	(52,067)	(52,067)	(1,414)	(53,481)
Total comprehensive expense for the year	-	-	-	(1,453)	-	(59,911)	(52,067)	(113,431)	(1,504)	(114,935)
Transactions with owners of the Company										
Share-based payment	-	-	-	-	-	23	-	23	-	23
Share issue expenses	(15)	-	-	-	-	-	-	(15)	-	(15)
As at 30 June 2018 (Unaudited)	1,883,498	(53,425)	-	(3,355)	27,468	(157,565)	555,166	2,251,787	12,010	2,263,797

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KNM GROUP BERHAD**(Company No. 521348-H)
(Incorporated in Malaysia)****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED
30 JUNE 2018****(Unaudited)**

	30.06.2018	(Restated)
	(Unaudited)	30.06.2017
	RM	(Unaudited)
	'000	RM
		'000
Cash flows from operating activities		
(Loss)/Profit before tax	(46,616)	4,272
Adjustments for:		
Amortisation of intangible assets	14,722	14,761
Share-based payment	23	210
Depreciation	10,941	4,015
Interest expense	27,702	16,556
Interest income	(905)	(591)
Unrealised (gain)/loss on foreign exchange	6,692	(10,046)
Reversal of impairment loss on property, plant and equipment	(9,600)	-
Share of profit in associates and joint ventures, net of tax	(2,583)	(1,465)
Change in fair value of forward contracts	(1,001)	(5,563)
Bad debts written off	3,586	334
Reversal of provision for warranty	(4,462)	(4,760)
Reversal of impairment loss on receivables	(1,810)	(6,922)
Loss on disposal of property, plant and equipment	5,134	68
	<u>1,823</u>	<u>10,869</u>
Operating profit before working capital changes		
Changes in working capital:		
Inventories	7,192	(19,803)
Trade and other receivables	(24,703)	115,087
Trade and other payables	7,112	(126,725)
Cash used in operations	(8,576)	(20,572)
Income taxes paid	(10,886)	(3,825)
Interest paid	(163)	(302)
Interest received	905	591
	<u>(18,720)</u>	<u>(24,108)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Change in pledged deposits	271	20
Acquisition of property, plant and equipment	(6,836)	(9,808)
Acquisition of other intangible assets	(2)	(14)
Proceeds from disposal of property, plant and equipment	6,760	140
	<u>193</u>	<u>(9,662)</u>
Net cash generated from/(used in) investing activities		
Cash flows from financing activities		
Net (repayment)/drawdown of bills payable	(68,910)	2,411
Repayment of finance lease liabilities	(5,313)	(3,277)
Drawdown/(Repayment) of term loans and revolving credit	208,517	(49,940)
Interest paid	(27,539)	(16,254)
Share issue expenses	(15)	-
	<u>106,740</u>	<u>(67,063)</u>
Net cash generated from/(used in) financing activities		
Net increased/(decrease) in cash and cash equivalents	88,213	(100,833)
Cash and cash equivalents at beginning of period	195,587	411,719
Effect of foreign currency translation	(3,588)	(6,625)
	<u>280,212</u>	<u>304,261</u>
Cash and cash equivalents at end of period		
Cash and bank balances	284,550	308,004
Deposits with licensed banks	21,259	2,915
Less: Pledged deposits	(21,259)	(2,534)
	<u>284,550</u>	<u>308,385</u>
Bank overdrafts	(4,338)	(4,124)
	<u>280,212</u>	<u>304,261</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 June 2018

PART A: EXPLANATORY NOTES AS PER MFRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017. These explanatory notes attached to the interim financial statements provide explanation of events and transactions that are significant for the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2017.

A2. Significant Accounting Policies

The audited financial statements of the Group for the financial year ended 31 December 2017 were prepared in accordance with MFRS. Except for certain differences, the requirements under IFRS and MFRS are similar. The significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the financial year ended 31 December 2017 except for the adoption of new MFRSs and amendments that are mandatory for the Group for the financial year with effect from 1 January 2018:

- MFRS 9, Financial Instruments (2014)
- MFRS 15, Revenue from Contracts with Customers
- Clarifications to MFRS 15, Revenue from Contracts with Customers IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4, Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, Investment Property – Transfers of Investment Property

The initial application of the abovementioned accounting standards, interpretations or amendments are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company except as mentioned below:

(i) ***MFRS 15, Revenue from Contracts with Customers***

MFRS 15 replaces the guidance in MFRS 111, Construction Contracts, MFRS 118, Revenue, IC Interpretation 13, Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfers of Assets from Customers and IC Interpretation 131, Revenue - Barter Transactions Involving Advertising Services.

The Group has established a team to manage the implementation of MFRS 15. For respective group entities, the team reviewed contracts with customers to account for the financial impact of the adoption of the new standard. The team is also responsible to set up

a group policy on implementation and to design approaches to account into the Group's financial reporting process.

Based on the assessment, the key concepts that may give rise to material impact upon adoption are as included below:

(i) Separate performance obligations (“PO”)

Components in a project are accounted for as separate performance obligations unless these components are highly dependent, inter-related and integrated to be incorporated into a single output. The Group has assessed that there are separate performance obligations arising from a single contract, which are required to be accounted for separately and will depart from current practice. The impact is as disclosed below.

(ii) Timing of revenue recognition

For construction contracts, currently the Group recognises revenue in proportion to the stages of completion of a contract, which are assessed by reference to surveys of work performed/completion of a physical proportion of contract work. Upon adoption of MFRS 15, the timing of revenue recognition remains as “over-time” recognition for most performance obligations, except for certain performance obligations, the timing of revenue recognition would change from the current “over-time” recognition to “in-time” recognition. The impact upon adoption, which is as disclosed below.

The Group has assessed the estimated impact that the initial application of MFRS 15 will have on its consolidated financial statements for year ended 31 December 2017 and the beginning of the earliest period presented 1 January 2017 as below.

Group	Statement of financial position as at 31 December 2017		Statement of financial position as at 1 January 2017	
	As currently reported	Restatement	As currently reported	Restatement
	RM'000	RM'000	RM'000	RM'000
Inventories	100,870	161,966	73,732	128,268
Amount due from contract customers	387,122	356,504	404,013	360,032
Payable and accruals	(400,519)	(431,731)	(599,995)	(597,881)
Deferred taxation	(192,287)	(262,565)	(191,054)	(228,410)
Retained earnings	(638,245)	(607,233)	(681,252)	(656,566)

(ii) MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new standard contains three principal classification categories for financial assets: (i) measured at amortised cost; (ii) fair value through other comprehensive income (FVOCI); and (iii) fair value through profit or loss (FVTPL), and eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

The Group has established a team to manage the implementation of MFRS 9. For respective group entities, the team reviewed each category of financial assets to assess the impact of the adoption. Based on the assessment performed, the Group does not expect that the application of the new classification requirement will have a material impact on accounting for its financial assets.

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (ECL) model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

The Group does not expect that the application of the forward-looking expected credit loss (ECL) model will have a material impact on accounting for its financial assets.

The following are accounting standards, amendments and interpretations of the MFRS that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, Leases
- IC Interpretation 23, Uncertainty over Income Tax Treatments
- Amendments to MFRS 3, Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 9, Financial Instruments – Prepayment Features with Negative Compensation

- Amendments to MFRS 11, Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 112, Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 119, Employee benefits – Plan Amendment, Curtailment or Settlement
- Amendments to MFRS 123, Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 128, Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures

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

- MFRS 17, Insurance Contracts

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

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

The Group and the Company plan to apply the abovementioned accounting standards, interpretations and amendments in respective financial years when the abovementioned accounting standards, interpretations and amendments become effective, where applicable.

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, Leases, IC Interpretation 4, Determining whether an Arrangement contains a Lease, IC Interpretation 115, Operating Leases – Incentives and IC Interpretation 127, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments.

There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

A3. Qualification of annual financial statements

There was no audit qualification in the annual financial statements of the Group for the financial year ended 31 December 2017.

A4. Seasonal and cyclical factors

The Group's business operation results were not materially affected by any major seasonal or cyclical factors.

A5. Unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows

There were no unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows for the current quarter and financial period to date.

A6. Material changes in estimates

There were no material changes in estimates of amounts reported in the current quarter.

A7. Debt and equity securities

- a. There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period to date except for shares issued under the ESOS scheme.
- b. As at the date of this report, the Company has repurchased a total of 23,341,275 of its issued share capital from the open market. The average price paid for the shares repurchased was RM2.29 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares and treated in accordance with the requirement of Section 127 of the Companies Act 2016.

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

	(Restated) Revenue 6 months ended 30.06.2017 RM'000	(Restated) Gross Profit 6 months ended 30.06.2017 RM'000	(Restated) EBITDA 6 months ended 31.06.2017 RM'000
Asia & Oceania	121,831	13,281	24,472
Europe	548,076	88,861	49,224
Americas	7,953	(5,910)	(6,543)
	<u>677,860</u>	<u>96,232</u>	<u>67,153</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 financial year ended 31 December 2017.

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

As at to-date, the following are the updates for the composition of the Group:-

- A. The Company had on 16 May 2018 received a confirmation from the Registrar of Corporations, Government of Alberta, Canada that 1840355 Alberta Ltd. ("AL"), an indirect wholly-owned subsidiary of the Company had been voluntarily dissolved on 15 May 2018.
- B. The Company had on 6 August 2018 received confirmation that a joint venture entity known as KNM HMS Energy Sdn. Bhd. ("JVCO"), had been officially struck-off from the register of companies upon publication in the Gazette by CCM on 2 July 2018.

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	140	<u>34,027</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, administrative expense and other support services	560
I.M.Bina Sdn. Bhd. (b)	
- General construction, civil mechanical works, provision of equipment and other services	7,537

(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.

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

B1. Performance of 6-month period ended 30 June 2018 against 30 June 2017

The Group achieved a revenue of approximately RM714.51 million in the six months ended 30 June 2018 as compared with RM677.86 million achieved in the same corresponding period in the previous year. The higher revenue in the current period was mainly due to contribution from new bio-ethanol plant in Thailand which has commenced commercial operations since September 2017.

The Group registered a higher gross profit of RM106.51 million as compared to RM96.23 million. Nevertheless, the Group recorded a lower Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) of approximately RM28.50 million in the current period as compared with RM67.15 million in the corresponding period in previous financial year mainly due to unrealised foreign exchange loss in the current period.

The Group has also incurred additional depreciation arising from the bio-ethanol plant in Thailand. Consequently, the Group posted a loss before tax of RM46.62 million in the current period as compared with a profit before tax of RM4.27 million in same corresponding period in previous financial year.

Asia & Oceanic Segment

Asia & Oceanic Segment recorded a higher revenue contribution mainly attributable to the sales of bio-ethanol in Thailand. This Segment recorded a Loss Before Interest, Tax, Depreciation and Amortisation amounted to RM27.39 million as compared to an EBITDA of RM24.47 million in the corresponding period in previous financial year, mainly due to unrealised loss on foreign exchange, lower profit margins and slow replenishment of new orders in the current period.

Europe Segment

As the global oil and gas market has shown signs of recovery in the beginning of year 2018, with increased orders secured, Europe segment recorded a higher revenue contribution with a higher profit margin.

Americas Segment

Americas segment registered a lower loss mainly due to lower operating costs.

B2. Performance of the current quarter against the preceding quarter (2nd Quarter 2018 versus 1st Quarter 2018)

The Group reported a higher loss before tax of RM32.07 million as compared to RM14.55 million in preceding quarter. This was mainly due to the unrealised loss on foreign exchange.

B3. Prospects

The Board anticipates the outlook for financial year ending 31 December 2018 will remain challenging. However, the recent recovery of the crude oil price will stimulate more capital expenditure into refineries which were deferred several years ago.

In addition, the Group's strategy to diversify its sources of income from project-based contracts to recurring-income businesses in renewable energy industry is bearing results. The bio-ethanol plant in Thailand has been in commercial operations since September 2017 and it will contribute positively to the Group in the following financial years. The phase two (2) bio-ethanol plant for additional 300,000 litres per day is currently under construction.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 30.06.2018 RM'000	3 months Ended 30.06.2017 RM'000	6 months Ended 30.06.2018 RM'000	6 months Ended 30.06.2017 RM'000
Current	6,762	6,208	11,829	5,152
Prior period	(650)	(1,158)	(149)	(1,148)
Deferred tax	(3,562)	(2,749)	(4,815)	32
	<u>2,550</u>	<u>2,301</u>	<u>6,865</u>	<u>4,036</u>

The Group's effective tax rate for the financial period is higher than statutory tax rate mainly due to non-deductible expenses and no deferred tax assets have been recognised on tax losses subsidiaries.

B6. Unquoted investments and properties

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

B7. Quoted and marketable investments

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

B8. Status of corporate proposals announced but not completed

On 19 June 2015, KNM Group Berhad's ("KNM", as the "Guarantor") wholly-owned subsidiary, Splendid Investments Limited ("Splendid", as the "Issuer"), has established a multicurrency medium term note ("MTN") programme of an initial size of up to SGD300 million (the "Programme"). The Programme is unconditionally and irrevocably guaranteed by KNM and as at to-date, no notes have been issued by the Issuer under the Programme.

B9. Group borrowings and debt securities

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

	As at 30.06.2018 RM'000
Short term:	
Borrowings (secured)	87,269
Borrowings (unsecured)	45,590
Bank Overdrafts	4,338
Bills Payable	88,394
Hire Purchase	4,503
Revolving credits	162,451
	<u>392,545</u>
Long term :	
Borrowings (secured)	83,905
Borrowings (unsecured)	626,623
Hire Purchase	15,974
Revolving credits	177,591
	<u>904,093</u>
	<u>1,296,638</u>

The above are also inclusive of other borrowings in foreign currency of RMB 40.00 million, EURO 74.09 million, CAD 6.58 million, USD 78.06million, THB 2.92 billion, and AED 6.01 million.

The exchange rates used are 1 RMB = RM 0.6101, 1 EURO = RM 4.7202, 1 CAD = RM3.0761, 1 USD = RM4.0395, 1 THB = RM0.1223, 1 and AED = 1.0997.

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 30 June 2018 are as follows:-

Type of Derivative	Contract/Notional value RM'000	Gain on Fair value changes RM'000
Foreign Exchange Contracts		
-Less than 1 year	127,826	1,711
	<u>127,826</u>	<u>1,711</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. (LOSS)/PROFIT FOR THE PERIOD

	3 Months ended 30.06.2018 RM'000	3 Months ended 30.06.2017 RM'000	6 Months ended 30.06.2018 RM'000	6 Months ended 30.06.2017 RM'000
(a)				
(Loss)/Profit for the period is arrived at after charging:				
Reversal for impairment loss on receivables	(1,043)	(3,359)	(1,810)	(6,922)
Bad debts written off	3,586	-	3,586	334
Change in fair value of forward contracts	(2,683)	(2,575)	(1,001)	(5,563)
Amortisation of intangible asset	7,248	7,395	14,722	14,761
Reversal of provision for warranty	(462)	(3,074)	(4,462)	(4,760)
Loss on disposal of property, plant and equipment	5,238	46	5,134	68
Reversal of impairment loss on property, plant and equipment	-	-	(9,600)	-
Share-based payment	12	105	23	210
And crediting:				
Interest income	442	405	905	591
(b)				
Interest expense	13,809	6,554	27,702	16,556
(c)				
Depreciation charge for the period is allocated as follow:				
Income statement	4,660	672	10,941	4,015
Construction work in progress	12,013	14,754	23,776	27,513
	<u>16,673</u>	<u>15,426</u>	<u>34,717</u>	<u>31,528</u>

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.

B14. Loss per share

	Individual Quarter		Cumulative Quarter	
	30.06.2018	(Restated) 30.06.2017	30.06.2018	(Restated) 30.06.2017
Basic loss per share				
Net loss attributable to shareholders (RM'000)	(33,644)	(912)	(52,067)	(365)
Number of shares at the beginning of the year ('000)	2,175,420	2,156,132	2,175,420	2,156,132
Issuance of share-Private Placement ('000)	194,017	-	194,017	-
Effect of Share buy-back ('000)	(23,341)	(23,332)	(23,341)	(23,332)
Weighted average number of shares ('000)	<u>2,346,096</u>	<u>2,132,800</u>	<u>2,346,096</u>	<u>2,132,800</u>
Basic loss per share (sen)	(1.43)	(0.04)	(2.22)	(0.02)

B15. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 30 August 2018.