

# KNM GROUP BERHAD

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

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

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative year to date	
	Unaudited 3 months ended 30.09.2020 RM'000	Unaudited 3 months ended 30.09.2019 RM'000	Unaudited 30.09.2020 RM'000	Unaudited 30.09.2019 RM'000
<b>Revenue</b>	<u>321,319</u>	<u>447,882</u>	<u>990,909</u>	<u>1,186,290</u>
<b>Operating profit</b>	<u>42,387</u>	<u>31,635</u>	<u>102,828</u>	<u>101,122</u>
Finance costs	(19,909)	(16,178)	(47,462)	(53,464)
Interest income	257	135	373	550
<b>Profit before tax</b>	<u>22,735</u>	<u>15,592</u>	<u>55,739</u>	<u>48,208</u>
Tax expense	(7,247)	(8,354)	(13,438)	(19,853)
<b>Net profit for the period</b>	<u>15,488</u>	<u>7,238</u>	<u>42,301</u>	<u>28,355</u>
<b>Other comprehensive (expense)/income, net of tax</b>				
Foreign currency translation differences for foreign operations	(6,019)	(42,357)	64,339	(46,922)
Hedge of net investment in subsidiaries	(34,097)	(20,294)	(51,921)	(21,860)
Cash flow hedge	71	(1,806)	(40)	(197)
Revaluation of property, plant and equipment	-	-	71	-
Share of gain of equity-accounted associates and joint ventures	8	(3)	97	1,359
<b>Other comprehensive (expense)/income for the period, net of tax</b>	<u>(40,037)</u>	<u>(64,460)</u>	<u>12,546</u>	<u>(67,620)</u>
<b>Total comprehensive (expense)/income for the period</b>	<u>(24,549)</u>	<u>(57,222)</u>	<u>54,847</u>	<u>(39,265)</u>
<b>Profit attributable to:</b>				
Owners of the Company	17,977	10,558	49,460	36,500
Non-controlling interests	(2,489)	(3,320)	(7,159)	(8,145)
	<u>15,488</u>	<u>7,238</u>	<u>42,301</u>	<u>28,355</u>
<b>Total comprehensive (expense)/income attributable to:</b>				
Owners of the Company	(21,704)	(48,121)	62,888	(25,077)
Non-controlling interests	(2,845)	(9,101)	(8,041)	(14,188)
Total comprehensive (expense)/income for the period	<u>(24,549)</u>	<u>(57,222)</u>	<u>54,847</u>	<u>(39,265)</u>
<b>Profit per share:</b>				
Total comprehensive (expense)/income attributable to:				
- Basic (Sen)	0.68	0.42	1.86	1.46
- Diluted (Sen)	0.67	0.41	1.84	1.43

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 FINANCIAL POSITION

	NOTE	Unaudited As at 30.09.2020 RM'000	Audited As at 31.12.2019 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets		417,355	412,434
Goodwill		920,984	869,316
Property, plant and equipment		1,493,973	1,501,530
Right-of-use assets		52,077	57,907
Other investments, including derivatives		184	174
Investments in associates		49	-
Deferred tax assets		63	65
		<u>2,884,685</u>	<u>2,841,426</u>
<b>Current assets</b>			
Inventories		61,354	99,020
Contract assets		305,369	205,032
Trade and other receivables		395,765	368,522
Cash and bank balances		187,894	343,653
		<u>950,382</u>	<u>1,016,227</u>
Asset classified as held for sale		-	40,626
		<u>950,382</u>	<u>1,056,853</u>
<b>TOTAL ASSETS</b>		<u>3,835,067</u>	<u>3,898,279</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		1,961,444	1,924,046
Treasury shares		(54,401)	(53,425)
Reserves		(169,923)	(206,552)
		<u>1,737,120</u>	<u>1,664,069</u>
<b>Non-controlling interests</b>		<u>(22,256)</u>	<u>(14,215)</u>
<b>Total Equity</b>		<u>1,714,864</u>	<u>1,649,854</u>
<b>Non-current liabilities</b>			
<b>Long term payables</b>			
Long service leave liability		8,017	7,560
Lease liabilities		7,135	6,884
Loans and borrowings	B9	39,520	41,415
Deferred tax liabilities		1,064,177	1,008,218
		<u>205,812</u>	<u>207,786</u>
		<u>1,324,661</u>	<u>1,271,863</u>
<b>Current liabilities</b>			
Trade and other payables		329,357	357,367
Contract liabilities		108,732	113,741
Lease liabilities		10,914	12,345
Loans and borrowings	B9	299,962	459,393
Current tax liabilities		46,577	33,716
		<u>795,542</u>	<u>976,562</u>
<b>Total liabilities</b>		<u>2,120,203</u>	<u>2,248,425</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>3,835,067</u>	<u>3,898,279</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.65</u>	<u>0.64</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 SEPTEMBER 2020**

	← Attributable to Equity Holders of the Parent → Non-distributable						Total RM'000	Non-controlling Interests RM'000	Total Equity RM'000
	Share Capital RM'000	Treasury Shares RM'000	Hedging Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserves RM'000	Accumulated Losses RM'000			
<b>As at 1 January 2019</b>	1,883,498	(53,425)	(2,571)	27,468	(146,609)	(167,583)	1,540,778	(2,454)	1,538,324
- as previously reported									
Adjustment on initial application of MFRS 16, net of tax	-	-	-	-	-	1,893	1,893	-	1,893
<b>As at 1 January 2019 (Restated)</b>	1,883,498	(53,425)	(2,571)	27,468	(146,609)	(165,690)	1,542,671	(2,454)	1,540,217
Other comprehensive income/(expense) for the period	-	-	(197)	-	(71,607)	10,227	(61,577)	(6,043)	(67,620)
Profit for the period	-	-	-	-	-	36,500	36,500	(8,145)	28,355
<b>Total comprehensive income/(expense) for the period</b>	-	-	(197)	-	(71,607)	46,727	(25,077)	(14,188)	(39,265)
<b>Transactions with owners of the Company</b>									
Change in ownership interest in a subsidiary	-	-	-	-	-	-	-	(807)	(807)
Share issuance arising from ESOS	1,303	-	-	-	-	-	1,303	-	1,303
Share-based payment	-	-	-	-	230	-	230	-	230
Share issuance arising from private placement	37,536	-	-	-	-	-	37,536	-	37,536
<b>As at 30 September 2019 (Unaudited)</b>	1,922,337	(53,425)	(2,768)	27,468	(217,986)	(118,963)	1,556,663	(17,449)	1,539,214
<b>As at 1 January 2020</b>	1,924,046	(53,425)	(1,369)	27,468	(121,387)	(111,264)	1,664,069	(14,215)	1,649,854
Other comprehensive income/(expense) for the period	-	-	(40)	-	13,468	-	13,428	(882)	12,546
Realisation of revaluation reserve on disposal of investment in subsidiaries	-	-	-	-	(12,322)	12,322	-	-	-
Profit for the period	-	-	-	-	-	49,460	49,460	(7,159)	42,301
<b>Total comprehensive income/(expense) for the period</b>	-	-	(40)	-	1,146	61,782	62,888	(8,041)	54,847
<b>Transactions with owners of the Company</b>									
Share-based payment	-	-	-	-	1,209	-	1,209	-	1,209
Share issuance arising from ESOS	9,930	-	-	-	-	-	9,930	-	9,930
Share buy-back	-	(976)	-	-	-	-	(976)	-	(976)
Transfer of warrant reserve upon expiry of Warrant-B	27,468	-	-	(27,468)	-	-	-	-	-
<b>As at 30 September 2020 (Unaudited)</b>	1,961,444	(54,401)	(1,409)	-	(119,032)	(49,482)	1,737,120	(22,256)	1,714,864

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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 SEPTEMBER 2020**

(Unaudited)

	30.09.2020 (Unaudited) RM '000	30.09.2019 (Unaudited) RM '000
<b>Cash flows from operating activities</b>		
Profit before tax	55,739	48,208
Adjustments for:		
Amortisation of intangible assets	21,734	18,644
Depreciation of property, plant and equipment	16,293	21,174
Depreciation of right-of-use assets	4,206	-
Share-based payment	1,209	230
Interest expense	45,421	50,813
Interest income	(373)	(550)
Unrealised gain on foreign exchange	(28,186)	(22,881)
Change in fair value of forward contracts	(108)	304
Bad debts written off	-	672
Reversal of provision for warranty	(2,730)	(8,172)
Provision for late delivery charges	327	-
Gain on disposal of property, plant and equipment	(143)	(4,236)
Gain on disposal of investment in subsidiaries	(1,965)	-
Reversal of impairment loss on receivables	(2,413)	(4,663)
Plant and equipment written off	51	65
Operating profit before working capital changes	<u>109,062</u>	<u>99,608</u>
Changes in working capital:		
Inventories	40,613	27,713
Trade and other receivables	(66,318)	(50,568)
Trade and other payables	<u>(52,803)</u>	<u>(48,775)</u>
Cash generated from operations	30,554	27,978
Income taxes paid	(9,341)	(7,685)
Interest paid	(325)	(251)
Interest received	373	550
<b>Net cash generated from operating activities</b>	<u>21,261</u>	<u>20,592</u>
<b>Cash flows from investing activities</b>		
Change in pledged deposits	43,445	(20,781)
Acquisition of property, plant and equipment	(7,469)	(18,079)
Acquisition of right of use assets	(3,508)	-
Acquisition of subsidiaries, net of cash inflow	-	1,557
Acquisition of other intangible assets	(1,646)	-
Proceeds from disposal of property, plant and equipment	829	23,144
<b>Net cash generated from/(used in) investing activities</b>	<u>31,651</u>	<u>(14,159)</u>
<b>Cash flows from financing activities</b>		
Share buy-back	(978)	-
Net drawdown/(repayment) of bills payable	3,615	(107,999)
Repayments of finance lease liabilities	(4,601)	(3,569)
Net (repayment)/drawdown of term loans, bond and revolving credits	(134,610)	136,249
Lease interest paid	(797)	-
Interest paid	(45,421)	(50,813)
Proceed from share issuance arising from private placement	-	37,536
Proceeds from share issuance arising from ESOS	9,930	-
<b>Net cash (used in)/generated from financing activities</b>	<u>(172,862)</u>	<u>11,404</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(119,950)	17,837
<b>Cash and cash equivalents at beginning of period</b>	290,111	381,043
<b>Effect of foreign currency translation</b>	4,578	(76,497)
<b>Cash and cash equivalents at end of period</b>	<u>174,739</u>	<u>322,383</u>
Cash and bank balances	176,021	282,635
Deposits with licensed banks	11,873	91,425
Less: Pledged deposits	<u>(4,078)</u>	<u>(46,794)</u>
	183,816	327,266
Bank overdrafts	(9,077)	(4,883)
	<u>174,739</u>	<u>322,383</u>

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

## Notes to the Quarterly Interim Financial Report – 30 September 2020

### PART A: EXPLANATORY NOTES AS PER MFRS 134

#### A1. Basis of preparation

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

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2019. These explanatory notes attached to the interim financial statements provide explanation of events and transactions that are significant for the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2019.

#### A2. Significant Accounting Policies

The audited financial statements of the Group for the financial year ended 31 December 2019 were prepared in accordance with MFRS. Except for certain differences, the requirements under IFRS and MFRS are similar. The significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the financial year ended 31 December 2019 except for the adoption of new MFRSs and amendments that are mandatory for the Group for the financial year with effect from 1 January 2020:

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

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

MFRS 17	<i>Insurance Contracts</i>
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#### **MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022**

Amendments to MFRS 101	<i>Presentation of Financial Statements – Classification of Liabilities as Current or Non-current</i>
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#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed**

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

The Group plans to apply the abovementioned accounting standards, amendments and interpretations in the respective financial years when the abovementioned accounting standards, interpretation and amendments become effective, where applicable, except for MFRS 17, *Insurance Contracts* that is effective for annual period beginning on or after 1 January 2021 as it is not applicable to the Group.

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

**A3. Qualification of annual financial statements**

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

**A4. Seasonal and cyclical factors**

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

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

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

**A6. Material changes in estimates**

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

**A7. Debt and equity securities**

There were no issuances, repurchases or repayments of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the current financial quarter under review.

**A8. Dividend Paid**

No dividend was paid during the current financial quarter under review.

**A9. Segment information**

Segmental analysis of the revenue and result:-

Geographical segments:

	<b>Revenue</b>	<b>Gross Profit</b>	<b>EBITDA/ (LBITDA)</b>
	<b>9 months ended</b>	<b>9 months ended</b>	<b>9 months ended</b>
	<b>30.09.2020</b>	<b>30.09.2020</b>	<b>30.09.2020</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Asia & Oceania	151,567	17,928	70,126
Europe	839,342	175,760	108,805
Americas	-	-	(2,044)
	<u>990,909</u>	<u>193,688</u>	<u>176,887</u>

	<b>Revenue</b>	<b>Gross Profit</b>	<b>EBITDA/ (LBITDA)</b>
	<b>9 months ended</b>	<b>9 months ended</b>	<b>9 months ended</b>
	<b>30.09.2019</b>	<b>30.09.2019</b>	<b>30.09.2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Asia & Oceania	251,606	20,172	42,866
Europe	929,823	184,280	124,594
Americas	4,861	720	(752)
	<u>1,186,290</u>	<u>205,172</u>	<u>166,708</u>

#### **A10. Valuation of property, plant and equipment**

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

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

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

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

As at the date of this interim financial report is authorised for issuance, the COVID-19 infections in Malaysia and globally is still evolving and unpredictable. As such, it is difficult to quantify the full magnitude of the impact of this unprecedented pandemic to global economy and to the Group at this juncture. Nevertheless, the Group is actively monitoring and managing the Group's operations to minimise any impacts that may have caused by the COVID-19 pandemic.

Save for the above, there were no other material events subsequent to the end of the reporting period and up to the date of issuance of this report.

## A12. Changes in the composition of the Group

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

Save for the above, there were no other material changes in the composition of the Group since the last update in the Q2 2020 results.

## A13. Contingent liabilities and Assets

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

	<b>30.09.2020</b>	<b>30.09.2019</b>
	<b>RM'000</b>	<b>RM'000</b>
Guarantees and contingencies relating to borrowings and performance obligation of subsidiaries	615,668	647,386
Share of joint ventures' contingent liabilities incurred jointly with other investors		
- Secured guaranteed bank facilities and unsecured performance obligation of joint ventures	12,217	26,265

There were no other material changes in the contingent liabilities.

There were no material contingent assets for the Group.

## A14. Capital commitments

	<b>Contracted but not provided for RM'000</b>
Property, plant and equipment	153,429

## 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	790
IM Bina Sdn. Bhd. (a)	
- Contract billing payable	340
Inter Merger Realty & Development Sdn. Bhd. (a)	
- Office rental, administrative expense and other support services	18

(a) A company in which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors.



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

### **B1. Performance of 9 months ended 30 September 2020 against 30 September 2019**

The Group posted a lower revenue of approximately RM990.91 million for the 9 months ended 30 September 2020 as compared with RM1.19 billion achieved in the corresponding financial period of 2019. The lower revenue recognition was an effect of temporary closure of the fabrication plants in China and Malaysia due to COVID-19 lockdown compliances and reduction in ethanol production in Thailand's operations coupled with completion of a major Chinese project by Europe's operations in third quarter of 2019.

Consequently, the Group registered a lower gross profit of approximately RM193.69 million in the current financial period as compared with of approximately RM205.17 million in the corresponding financial period of 2019. It is noticeable that the gross profit margin had improved from 17.3% in the corresponding financial period of 2019 to 19.5% in the current financial period on the back of continuous cost savings from fabrication projects.

The Group posted a higher Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") of approximately RM176.89 million in the current financial period as compared with RM166.71 million in the corresponding financial period of 2019. The improvement in EBITDA was mainly attributable to greater savings achieved in the operating costs in the current financial period.

The Group posted a higher profit before tax ("PBT") of approximately RM55.74 million in the current financial period as compared with RM48.21 million in the corresponding financial period of 2019 due to lower finance costs incurred in the current financial period as the total borrowings were reduced from RM1.51 billion as at 30 September 2019 to RM1.36 billion as at 30 September 2020.

#### Asia & Oceania Segment

Asia & Oceania Segment posted a lower revenue of approximately RM151.57 million in the current financial period as compared with RM251.61 million in the corresponding financial period of 2019. The decline in revenue since the first quarter of 2020 was mainly due to temporary closure of the fabrication plants in China and Malaysia following the COVID-19 lockdown restrictions and reduced ethanol production in Thailand's operations.

Despite of this Segment registered a lower gross profit amount of approximately RM17.93 million in the current financial period as compared with RM20.17 million in the corresponding financial period of 2019, it is noticeable that the gross profit margin was recorded higher at 11.8% in the current financial period amid the COVID-19 pandemic as compared with 8.0% in the corresponding financial period of 2019, due to improved efficiency in the productions and project cost controls. The EBITDA of this Segment had further improved from RM42.87 million in the corresponding financial period of 2019 to RM70.13 million in the current financial period, mainly due to a higher unrealised exchange gain in the current financial period.

#### Europe Segment

The Europe Segment posted a lower revenue recognition of approximately RM839.34 million in the current financial period as compared with RM929.82 million in the corresponding financial period of 2019 mainly due to completion of a major China project in third quarter of 2019.

Consequently, this Segment recorded a lower gross profit of approximately RM175.76 million in the current financial period as compared with RM184.28 million in the corresponding financial period of 2019. On the other hand, this Segment continues in achieving growth in gross profit margin at 20.9% in the current financial period as compared with 19.8% in the corresponding financial period of 2019 mainly attributable to leaner operations and on-going cost saving measures.

This Segment registered a lower EBITDA of approximately RM108.81 million in current financial period as compared with RM124.59 million in the corresponding financial period of 2019, mainly due to unrealised exchange loss in the current financial period.

#### America Segment

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

This Segment registered a higher Loss Before Interest, Tax, Depreciation and Amortisation (“LBITDA”) of approximately RM2.05 million in the current financial period mainly due to unrealised exchange loss as compared with RM0.75 million in the corresponding financial period of 2019.

### **B2. Performance of the current quarter against the preceding quarter (3<sup>rd</sup> Quarter 2020 versus 2<sup>nd</sup> Quarter 2020)**

The Group’s revenue was posted slightly lower at approximately of RM321.32 million in the current quarter as compared with of approximately RM333.03 million in the preceding quarter, mainly due to reduced ethanol production in Thailand’s operations.

Consequently, the Group recorded a slightly lower gross profit of approximately RM61.30 million in the current quarter as compared with RM66.10 million in the preceding quarter.

The Group posted a higher profit before tax of approximately RM22.74 million in the current quarter as compared with RM14.12 million in the preceding quarter mainly due to higher unrealised exchange gain, gain on disposal of a non-profitable business unit in China and cost savings from operations in the current quarter.

### **B3. Prospects**

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

### **B4. Profit forecast**

Not applicable as no profit forecast was given.

### **B5. Tax expense**

	<b>3 months ended 30.09.2020 RM’000</b>	<b>3 months ended 30.09.2019 RM’000</b>	<b>9 months ended 30.09.2020 RM’000</b>	<b>9 months ended 30.09.2019 RM’000</b>
Current period	16,490	10,908	23,226	19,851
Prior period	(2)	(352)	(150)	205
Deferred tax	(9,241)	(2,202)	(9,638)	(203)
	<u>7,247</u>	<u>8,354</u>	<u>13,438</u>	<u>19,853</u>

The Group’s effective tax rate for the financial periods are 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 financial 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 financial quarter and financial period to date.

**B8. Status of corporate proposals announced.**

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

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

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

- b. On 25 September 2020, the Company had announced that all the outstanding ESOS options totaled 146,717,001 granted on 25 July 2014 (“ESOS Batch 1”) and progressively exercisable pursuant to the ESOS Batch 1 was cancelled upon mutual agreement with the respective ESOS option holders. The total numbers of exercised options of ESOS Batch 1 was 2,393,900.
- c. On 8 October 2020, Bursa Securities Berhad had vide its letter dated 7 October 2020, approved the listing of and quotation for up to 269,184,800 new ordinary shares in the Company to be issued (“Private Placement”), pursuant to the proposed private placement of up to 10% of the issued ordinary shares in the Company which had been submitted to Bursa Securities on 29 September 2020.

On 26 October 2020, the Company had issued 26,684,800 new ordinary shares via Private Placement to the eligible investors for a total cash consideration of RM4,536,416 including transaction costs of RM77,101.

On 20 November 2020, the Company had further issued the remaining 242,500,000 new ordinary shares via Private Placement to the eligible investors for a total cash consideration of RM40,012,500 including transaction costs of RM824,041.

- d. On 16 November 2020, The Company had announced that the extension of duration of its existing ESOS, expiring on 19 May 2022 for a further period of two (2) years from 20 May 2022 to 19 May 2024 in accordance with the terms of the ESOS By-Laws, has been approved by the Board of Directors of the Company. This extension is not subject to any approvals from the Company’s shareholders and/or any other authorities.

The Company will serve the notice of extension to the eligible persons.

Pursuant to Paragraph 9.19(51) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Company wishes to announce that the following offer of options has been

made on 16 November 2020 to the eligible persons to subscribe for new ordinary shares in the Company (“Options”) under the ESOS.

Details are as follows :

1	Date of offer	16 November 2020
2	Exercise price of Options offered	RM0.165
3	Number of Options offered	146,753,001
4	Market price of KNMG shares on the offer date	RM0.175 (low) / RM0.200 (high)
5	Number of options offered to Directors of KNMG	70,000,000
6	Vesting period of the Options	4 years (2024)

Save for the above, there is no other corporate proposal announced but not completed during the current financial quarter under review.

#### **B9. Group borrowings and debt securities**

The Group’s borrowings as at the end of the financial period were as follows:

	<b>As at 30.09.2020 RM'000</b>
<b>Short-term:</b>	
Bank overdrafts	9,077
Borrowings (secured)	43,348
Borrowings (unsecured)	98,421
Bills Payable	58,463
Hire Purchase	3,600
Revolving credits	87,053
	<u>299,962</u>
<b>Long-term:</b>	
Borrowings (secured)	127,734
Borrowings (unsecured)	912,132
Hire Purchase	11,613
Revolving credits	12,698
	<u>1,064,177</u>
	<u>1,364,139</u>

The above are also inclusive of other borrowings in foreign currency of EURO 132.10 million, CAD6.67 million, USD28.92 million, THB2.83 billion, and AED21.65 million.

The exchange rates used are 1 EURO = RM4.8703, 1 CAD = RM3.1203, 1 USD = RM4.1555, 1 THB = RM0.1315, and 1 AED = RM1.1313.

## B10. Financial Instruments

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

Type of Derivative	Contract/Notional value RM'000	Gain on Fair value changes RM'000
Foreign Exchange Contracts		
-Less than 1 year	55,799	336
	<u>55,799</u>	<u>336</u>

Exposure to foreign currency fluctuation of underlying commitments is monitored on on-going and timely basis. The Company's objective to incept derivative instrument contract is mainly to hedge against foreign exchange exposure on transactions in currencies other than its own.

Forward foreign exchange contracts are entered into with licensed banks to hedge the Group's exposure to foreign exchange risk in respect of its export sales, import purchases and other obligations by establishing the basis rate at which a foreign currency asset or liability will be settled. These contracts are executed with credit-worthy/reputable financial institutions and as such, credit risk and liquidity risk in respect of non-performance by counterparties to these contracts is minimal.

The fair values of the forward foreign currency exchange contracts are subject to market risk and the fair values were derived from marking to available market quoted price as of the reporting year. The fair value of the forward contracts may change in accordance to the fluctuation of the exchange rate of the underlying currency resulting in gain or loss in fair value.

The cash requirement for these derivatives will be fulfilled by future contract and other proceeds on the respective maturity date.

## B11. PROFIT FOR THE PERIOD

	3 months ended 30.09.2020 RM'000	3 months ended 30.09.2019 RM'000	9 months ended 30.09.2020 RM'000	9 months ended 30.09.2019 RM'000
(a)				
Profit for the period is arrived at after charging:				
Reversal of impairment loss on receivables	(184)	-	(2,413)	(4,663)
Bad debt written off	-	672	-	672
Change in fair value of forward contracts	(514)	498	(108)	304
Amortisation of intangible assets	7,547	4,107	21,734	18,644
(Reversal of)/Provision for warranty	(3,350)	618	(2,730)	(8,172)
Provision for late delivery charges	238	-	327	-
Plant and equipment written off	51	65	51	65
Loss/(Gain) on disposal of property, plant and equipment	140	430	(143)	(4,236)
Gain on disposal of investment in subsidiaries	(1,965)	-	(1,965)	-
Share-based payment	403	77	1,209	230
And crediting:				
Interest income	257	135	373	550
(b)				
Interest expense	19,157	14,786	45,421	50,813

(c)

Depreciation charge for the period is allocated as follow:

Income statement	6,882	7,342	20,499	21,174
Construction work in progress	10,564	7,559	31,826	25,768
	<u>17,446</u>	<u>14,901</u>	<u>52,325</u>	<u>46,942</u>

## B12. Material litigation

On 11 March 2019, a subsidiary, KNM Process Systems Sdn. Bhd. (“Claimant”) had issued and submitted a Request for Arbitration (the “Request”) against Lukoil Uzbekistan Operating Company LLC (“Respondent”) with the Institute of the Stockholm Chamber of Commerce, in Sweden (“SCC”).

The Request concerns disputes arising from a contract entered into with the Respondent on 3 December 2010. The hearing is currently scheduled to take place in Geneva, starting from 11 January 2021. However, the SCC Arbitral Tribunal is considering pandemic concerns and will soon provide with updated schedule beyond January 2021.

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

## B13. Dividend payable

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

## B14. Earnings per share

<b>Basic earnings per ordinary share</b>	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>30.09.2020</b>	<b>30.09.2019</b>	<b>30.09.2020</b>	<b>30.09.2019</b>
Net profit attributable to shareholders (RM'000)	17,977	10,558	49,460	36,500
Number of shares at the beginning of the year ('000)	2,601,643	2,369,437	2,601,643	2,369,437
Issuance of share Private Placement ('000)	-	160,721	-	160,721
Effect of Share buy-back ('000)	(26,992)	(23,341)	(26,992)	(23,341)
Weighted average number of shares issued under ESOS ('000)	83,477	557	83,477	557
Weighted average number of ordinary shares ('000)	<u>2,658,128</u>	<u>2,507,374</u>	<u>2,658,128</u>	<u>2,507,374</u>
Basic earnings per ordinary share (Sen)	0.68	0.42	1.86	1.46

<b><u>Diluted earnings per ordinary shares</u></b>	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>30.09.2020</b>	<b>30.09.2019</b>	<b>30.09.2020</b>	<b>30.09.2019</b>
Net profit attributable to shareholders (RM'000)	17,977	10,558	49,460	36,500
Weighted average number of ordinary shares ('000)	2,658,128	2,507,374	2,658,128	2,507,374
Effect of ESOS share options issued ('000)	27,113	42,995	27,113	42,995
Weighted average number of shares ('000)	<u>2,685,241</u>	<u>2,550,369</u>	<u>2,685,241</u>	<u>2,550,369</u>
Diluted earnings per ordinary share (Sen)	0.67	0.41	1.84	1.43

The calculation of diluted earnings per ordinary share was based on the profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding during year after adjustment for the effects of dilutive potential ordinary shares in issue and issuable under the ESOS options at an exercise price of RM0.11. The ESOS Batch 1 options at an exercise price of RM0.65 and warrants are excluded from the computation of diluted earnings per ordinary share as they do not have any potential dilutive effect.

The Company had on 25 September 2020 announced that all the outstanding ESOS Batch 1 options totalled 146,717,001 granted on 25 July 2014 was cancelled upon mutual agreement with the respective ESOS option holders.

#### **B15. Authorisation for issue**

The interim financial report was authorised for issue by the Board of Directors on 25 November 2020.