KNM GROUP BERHAD
(521348-H)

ANNUAL REPORT 2015

BORSIG fbmhudsonitaliana
Air Coolers - S & T Heat Exchangers - Waste Heat Boilers

WORLD CLASS PROCESS EQUIPMENT MANUFACTURER AND TOTAL SOLUTIONS PROVIDER

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VISION

To be a leading process equipment manufacturer and a modular process systems provider for the oil, gas, petrochemicals, minerals, power, environmental and renewable energy sectors

MISSION

To be a one stop centre for the provision of process equipment and process systems with state-of-the-art technology

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dato' Ab Halim bin Mohyiddin, DPMS
Independent Non-Executive Chairman

Ir Lee Swee Eng
Group Chief Executive Officer/Executive Director

Dato' Dr Khalid bin Ngah
Senior Independent Non-Executive Director

Dato' Sri Adnan bin Wan Mamat
Independent Non-Executive Director

Soh Yoke Yan
Independent Non-Executive Director

Gan Siew Liat
Executive Director

Chew Fook Sin
Executive Director

BOARD COMMITTEES

	AUDIT COMMITTEE MEMBERS	NOMINATION COMMITTEE MEMBERS	REMUNERATION COMMITTEE MEMBERS	ESOS COMMITTEE MEMBERS
Chairman	Dato' Ab Halim bin Mohyiddin	Dato' Ab Halim bin Mohyiddin	Dato' Dr Khalid bin Ngah	Dato' Dr Khalid bin Ngah
	Dato' Dr Khalid bin Ngah	Dato' Dr Khalid bin Ngah	Dato' Ab Halim bin Mohyiddin	Soh Yoke Yan
	Dato' Sri Adnan bin Wan Mamat	Soh Yoke Yan	Soh Yoke Yan	Gan Siew Liat
	Soh Yoke Yan		Ir Lee Swee Eng	

COMPANY SECRETARY

Lau Bee Gee
MAICSA 0817743

Email : cosec@knm-group.com

REGISTERED OFFICE

15 Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan, Malaysia
Tel No. : 603-8946 3000
Fax No. : 603-8943 4781
Email : knm@knm-group.com
Website : www.knm-group.com

DATE OF INCORPORATION

Incorporated on 22 July 2000 as a private company limited by shares. Converted to a public company limited by shares on 12 September 2000.

AUDITORS

KPMG
Chartered Accountants
Level 10, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel No. : 603-7721 3388
Fax No. : 603-7721 3399

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel No. : 603-7849 0777
Fax No. : 603-7841 8151 / 8152

STOCK EXCHANGE LISTING

Main Market of
Bursa Malaysia Securities Berhad
(Listed since 11 August 2003)
Stock name : KNM
Stock code : 7164

PRINCIPAL FINANCIERS

Industrial & Commercial Bank of China (Malaysia) Berhad
Level 34C, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia

Bank of China (Malaysia) Berhad
Ground, Mezzanine & 1st Floor
Plaza OSK
25 Jalan Ampang
50450 Kuala Lumpur, Malaysia

Malayan Banking Berhad
Menara Maybank
100 Jalan Tun Perak
50050 Kuala Lumpur, Malaysia

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 14th Annual General Meeting of KNM Group Berhad will be held at Parameswara Room, Level 2, Philea Mines Beach Resort, Jalan Dulang, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia on Thursday, 16 June 2016 at 10.00 a.m. for the following purposes:

As Ordinary Business:

1. To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2015 and the Reports of the Directors and Auditors (Please refer to note (i)).

2. To re-elect the following Directors who retire pursuant to Article 127 of the Company's Articles of Association:

   (a) Dato' Dr Khalid bin Ngah — ***Ordinary Resolution 1***

   (b) Gan Siew Liat — ***Ordinary Resolution 2***

3. To pass the following resolution pursuant to Section 129 of the Companies Act, 1965 as Ordinary Resolution: ***Ordinary Resolution 3***

   "**THAT** Dato' Ab Halim bin Mohyiddin who is over the age of seventy years and retiring in accordance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as Director of the Company and to hold office until the conclusion of the next Annual General Meeting."

4. To approve the Directors' fees of RM1,177,000 for the financial year ended 31 December 2015. ***Ordinary Resolution 4***

5. To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. ***Ordinary Resolution 5***

As Special Business:

To consider and if thought fit, to pass with or without modifications, the following Resolutions:

6. **Retention of Dato' Ab Halim bin Mohyiddin as Independent Director** ***Ordinary Resolution 6***

   "**THAT** in accordance with the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), Dato' Ab Halim bin Mohyiddin be and is hereby retained as an Independent Non-Executive Director of the Company and to hold office until the conclusion of the next Annual General Meeting."

7. **Authority to allot shares pursuant to Section 132D of the Companies Act, 1965** ***Ordinary Resolution 7***

   "**THAT** subject to the Companies Act, 1965 and the Articles of Association of the Company, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to allot and issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares to be issued does not exceed ten percent (10%) of the issued and paid-up share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad **AND THAT** such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

8. **Proposed renewal of shareholders' mandate for share buy-back** ***Ordinary Resolution 8***

"**THAT** subject to the Company's compliance with all the applicable rules, regulations, orders and guidelines made pursuant to the Companies Act, 1965 ("the Act"), the Company's Memorandum and Articles of Association and Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("Listing Requirements"), approval be and is hereby given to the Company to purchase at any time such amount of ordinary shares of RM0.50 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors in their absolute discretion deem fit and expedient in the interest of the Company ("Proposed Share Buy-Back Mandate") provided that:

(i) the aggregate number of ordinary shares which may be purchased and retained as treasury shares by the Company at any point of time pursuant to the Proposed Share Buy-Back Mandate shall not exceed ten percent (10%) of the total issued and paid-up share capital of the Company;

(ii) the amount of funds to be allocated by the Company pursuant to the Proposed Share Buy-Back Mandate shall not exceed the retained earnings and/or share premium of the Company as at 31 December 2015; and

(iii) the shares so purchased by the Company pursuant to the Proposed Share Buy-Back Mandate may at the discretion of the Directors be:

(a) retained as treasury shares; and/or

(b) cancelled; and/or

(c) resold on the market of Bursa Securities in accordance to the Listing Requirements; and/or

(d) distributed as dividends to the shareholders; and/or

(e) dealt in any other manner as prescribed by the applicable rules, regulations and orders made pursuant to the Act, the Listing Requirements and any other relevant authority for the time being in force;

AND THAT such authority conferred by the shareholders of the Company upon passing of this resolution pertaining to the Proposed Share Buy-Back Mandate will continue to be in force until the conclusion of the next Annual General Meeting of the Company, unless by a resolution passed at that meeting, the authority is renewed; or the expiration of the period within which the next Annual General Meeting is required to be held pursuant to Section 143(1) of the Act (but must not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or until the authority is revoked or varied by a resolution passed by the shareholders in a general meeting, whichever occurs first;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to implement and give effect to the Proposed Share Buy-Back Mandate."

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

9. **Proposed shareholders' mandate for recurrent related party transactions of a revenue or trading nature** *Ordinary Resolution 9*

"**THAT** approval be and is hereby given to the Company and/or its subsidiaries ("KNM Group") to enter into all arrangements and/or transactions involving the interests of Directors, major shareholders or persons connected with the Directors and/or major shareholders of KNM Group ("Related Parties") as specified in section 2.4 of the Circular to Shareholders dated 29 April 2016 provided that such arrangements and/or transactions are:

(i) recurrent transactions of a revenue or trading nature;

(ii) necessary for the day-to-day operations;

(iii) carried out in the ordinary course of business on normal commercial terms which are not more favourable to Related Parties than those generally available to the public; and

(iv) are not to the detriment of minority shareholders,

(hereinafter referred to as the "Proposed Recurrent RPT Mandate");

AND THAT such authority conferred by the shareholders of the Company upon passing of this resolution pertaining to the Proposed Recurrent RPT Mandate will continue to be in force until the conclusion of the next Annual General Meeting of the Company, unless by a resolution passed at that meeting, the authority is renewed; or the expiration of the period within which the next Annual General Meeting is required to be held pursuant to Section 143(1) of the Act (but must not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or until the authority is revoked or varied by a resolution passed by the shareholders in a general meeting, whichever is the earlier;

AND THAT the Directors of the Company be and are hereby empowered to complete and to do all such acts and things including executing all such documents as may be required as they may consider expedient or necessary to give effect to the Proposed Recurrent RPT Mandate."

10. To transact any other business of which due notice shall have been given.

By Order of the Board

Lau Bee Gee (MAICSA 0817743)
Company Secretary
Seri Kembangan
29 April 2016

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

Notes:

(i) *This Agenda item is meant for discussion only and is not to be put forward for voting as the provision of Section 169(1) of the Companies Act, 1965 ("the Act") does not require a formal approval of the shareholders.*

(ii) *A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Act shall not apply to the Company.*

(iii) *A member shall not, subject to paragraph (iv) below, be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member appoints more than one (1) proxy to attend and vote at the same meeting, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.*

(iv) *Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*

(v) *To be valid, the duly completed form of proxy must be deposited at the registered office of the Company at 15 Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time for holding the Meeting or any adjournment thereof.*

(vi) *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or if the appointer is a corporation, either under its common seal or under the hand of its officer or attorney duly authorised.*

(vii) *In respect of deposited securities, only members whose names appear in the Record of Depositors on 10 June 2016 shall be eligible to attend the Meeting or appoint proxies to attend and vote in his/her stead.*

EXPLANATORY NOTES ON SPECIAL BUSINESS

1. <u>Retention of Dato' Ab Halim bin Mohyiddin as Independent Director</u>

In respect of the proposed Ordinary Resolution 6:-

Dato' Ab Halim bin Mohyiddin ("Dato' Ab Halim") was appointed as an Independent Non-Executive Director on 14 June 2003 and was subsequently designated as a Senior Independent Non-Executive Director on 29 June 2011. Thereafter, he was re-designated as the Chairman of the Company on 29 April 2013.

Although he has exceeded the maximum tenure of nine (9) years as an Independent Director as prescribed by the MCCG 2012, the Board, after having assessed the independence of Dato' Ab Halim, considers him to be independent based on the following justifications and recommends that Dato' Ab Halim be retained as an Independent Non-Executive Director of the Company in respect of Ordinary Resolution 6:-

(a) He has confirmed and declared that he is an Independent Non-Executive Director as defined under Paragraph 1.01 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements;
(b) He is not related to any of the Company's directors or major shareholders;
(c) He does not have any conflict of interest with the Company and has not entered/is not expected to enter into contract(s) especially material contract(s) with the Company and/or its subsidiary companies;
(d) He is currently not sitting on the board of any other public and/or private companies having the same nature of business as that of the Company and its subsidiary companies; and
(e) His experience and knowledge of the Company and the Group's activities and corporate history is invaluable to the Board. The Board is also of the view that his impartial opinion and advice in his role as the Company's Chairman and Chairman of the Company's Audit and Nomination Committees will be beneficial to the Board and the Company too.

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

2. Authority to allot shares pursuant to Section 132D of the Companies Act, 1965

   (a) The shareholders' general mandate sought under the proposed Ordinary Resolution 7 is a renewal of the relevant shareholders' general mandate obtained in the previous Company's 13th Annual General Meeting held on 24 June 2015 ("Previous Mandate") and such authority will lapse at the conclusion of the forthcoming 14th Annual General Meeting to be held on 16 June 2016.

   (b) In order to eliminate any delay and costs involved in convening a general meeting to approve such issuance of shares, it is considered appropriate that the Directors be empowered, as proposed in Ordinary Resolution 7, if passed, will give flexibility and expediency to the Company to allot and issue up to ten percent (10%) of the issued share capital of the Company for the time being for such purposes as the Directors deem fit and in the best interest of the Company. This authority, unless revoked at a general meeting, will expire at the conclusion of the next annual general meeting of the Company.

   (c) Pursuant to the Previous Mandate, the Company has issued 193,893,700 new ordinary shares of RM0.50 each in the Company ("Placement Shares"), representing approximately ten percent (10%) of the issued and paid-up share capital of the Company (excluding treasury shares) at an issue price of RM0.50 per share via a Private Placement Exercise involving the new issue of shares as previously announced on 21 October 2015 (the "Exercise"). The gross proceeds raised pursuant to the Exercise has been utilised as follows:-

Purpose	**Utilisation (RM'000)**
Repayment of borrowings	46,364
Working capital	47,908
Defray expenses relating to the Exercise	2,675
Total	96,947

   (d) The Board continues to consider any opportunities to broaden the operating base and earnings potential of the Company. If any fund raising or merger and acquisition or expansion or diversification proposals, as the case may be, involve the issuance of new shares, the Directors would have to convene a general meeting to approve the issuance of new shares.

3. Proposed renewal of shareholders' mandate for share buy-back

   The proposed Ordinary Resolution 8, if passed, will renew the shareholders' mandate for share buy-back obtained at the previous Company's 13th Annual General Meeting held on 24 June 2015 and empower the Company to purchase the Company's shares up to ten percent (10%) of the issued and paid-up share capital of the Company.

4. Proposed shareholders' mandate for recurrent related party transactions of a revenue or trading nature

   The proposed Ordinary Resolution 9, if passed, will allow the Group to enter into recurrent transactions involving the interests of Directors, major shareholders or persons connected with the Directors and/or major shareholders of KNM Group, which are of a revenue or trading nature and necessary for the Group's day-to-day operations.

Further information on the Proposed Share Buy-Back Mandate and the Proposed Recurrent RPT Mandate are set out in the Statement/Circular to Shareholders dated 29 April 2016 which is despatched together with the Company's Annual Report 2015.

NOTICE OF ANNUAL GENERAL MEETING
(cont'd)

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

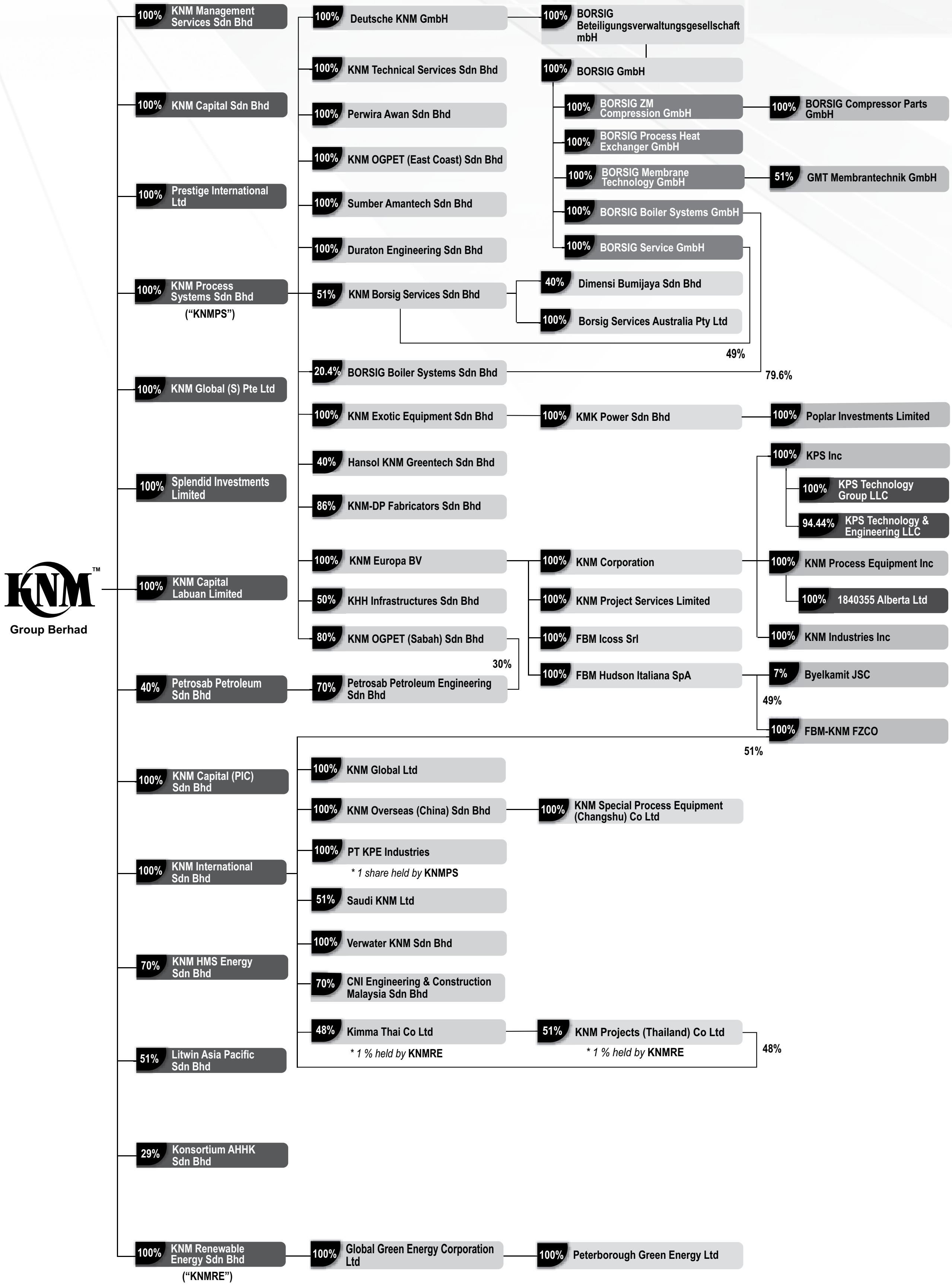
1. Details of persons who are standing for election as Directors

   There is no individual seeking election as a Director at the 14th Annual General Meeting of the Company. However, the particulars of all Directors including those standing for re-election, re-appointment and/or retention as Directors at the 14th Annual General Meeting (Resolutions 1, 2, 3 and 6) are set out in their respective Profiles of Directors and information relating to the Directors' interests in the securities of the Company is presented in the Analysis of Shareholdings and Warrantholdings in the Annual Report 2015.

2. Ordinary resolution on authority to Directors to issue shares

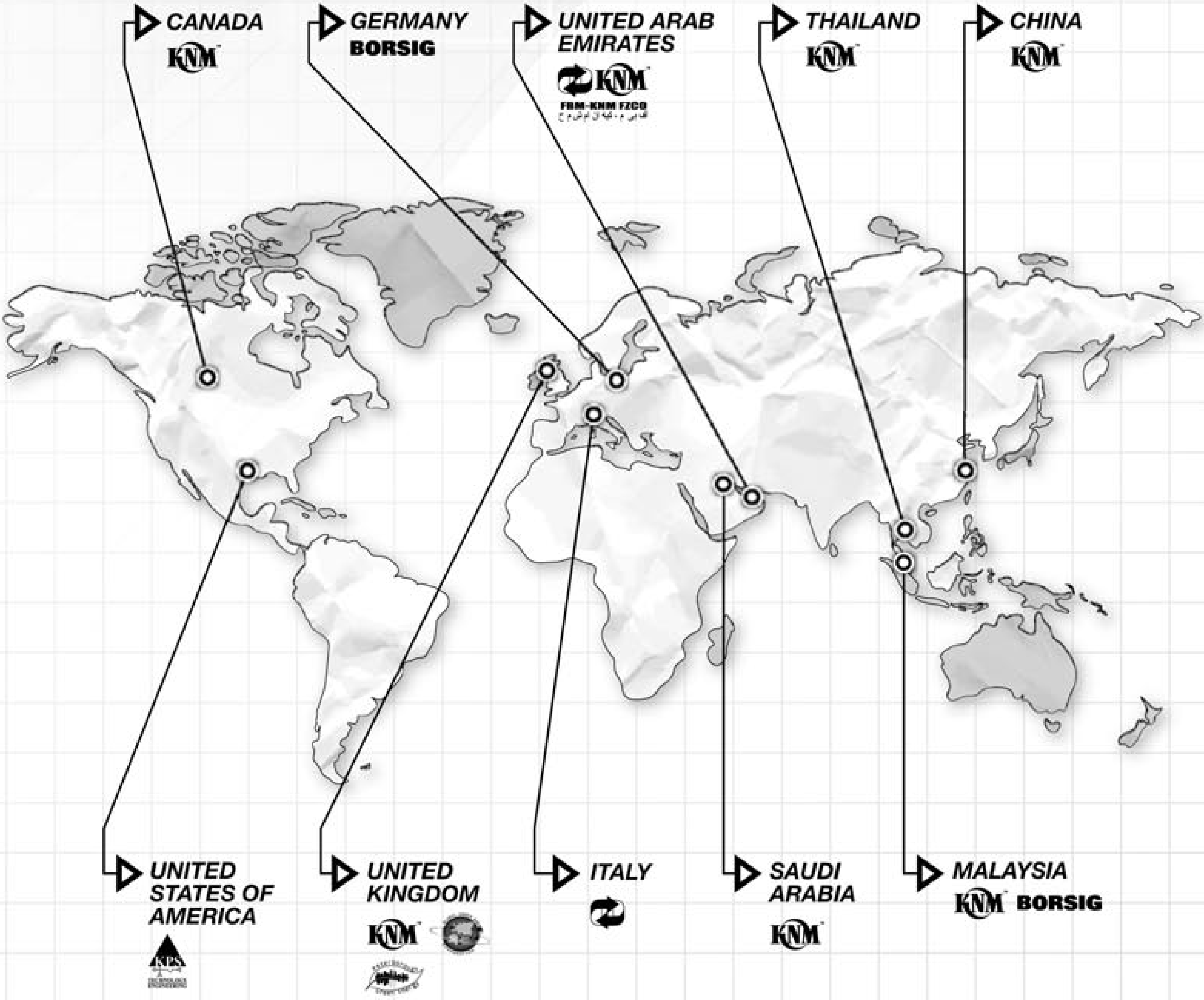
   Further details of the authority to Directors to issue shares in the Company pursuant to Section 132D of the Companies Act, 1965 are stated in the explanatory notes of the Notice of Annual General Meeting as set out on page 7 of the Annual Report 2015.

CORPORATE STRUCTURE
as at 31 March 2016



KNM AT A GLANCE

GLOBAL PRESENCE



5-YEAR GROUP FINANCIAL HIGHLIGHTS

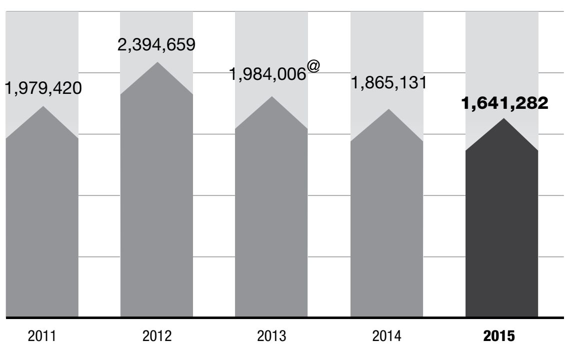
	2015	2014	2013	2012*	2011*
Revenue (RM'000)	1,641,282	1,865,131	1,984,006@	2,394,659	1,979,420
Profit/(Loss) Before Tax (RM'000)	124,135	118,249	44,557@	11,294	(157,609)
Profit/(Loss) After Tax (RM'000)	47,899	39,752	19,908@	70,346	(95,509)
Earnings/(Loss) Before Interest, Tax, Depreciation and Amortisation (RM'000)	263,144	269,428	198,599@	193,096	(13,875)
Shareholders' Equity (RM'000)	2,718,794	2,162,046	2,059,755	1,820,290	1,608,912
Basic Earnings/(Loss) Per Share (sen)	2.65	2.72	1.47@	6.96	(9.55)
Net Assets Per Share (RM)	1.26	1.32	1.38	1.22	1.61

Notes:

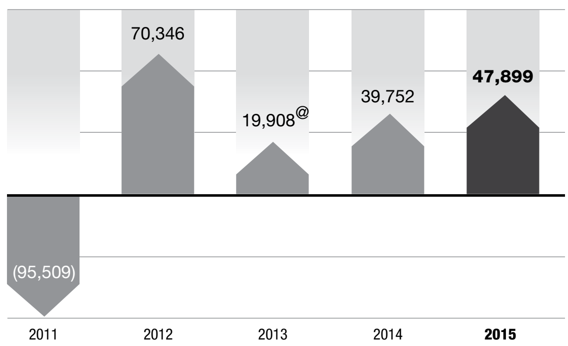
@ *The financials presented constitute of continuing operations during the respective years. For the financial year 2013, Brazil operations has been excluded as discontinued operation. Brazil operations remain presented as continuing operation in financial year 2012 and prior years.*

* *Pursuant to the adoption of MFRS 10 during financial year 2013, two former associated companies were reclassified as KNM Group Berhad's subsidiaries. Hence, the financials presented were restated retrospectively since 2009.*

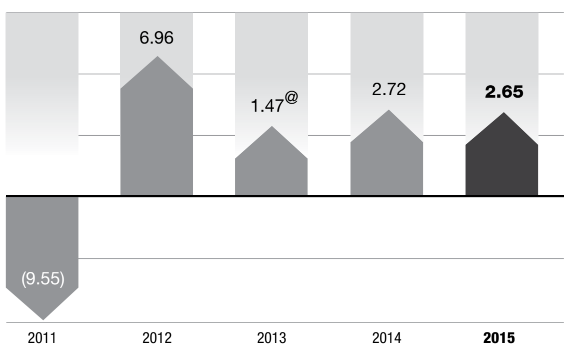
Revenue (RM'000)



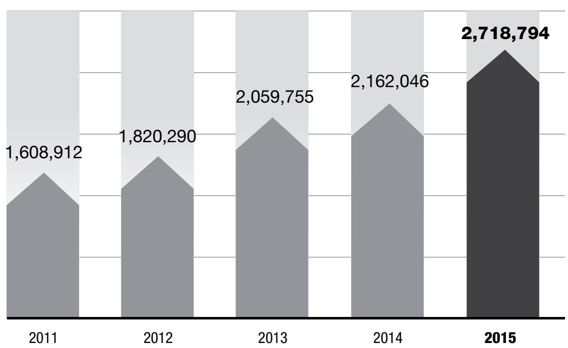
Profit/(Loss) After Tax (RM'000)



Earnings/(Loss) Per Share (sen)



Shareholders' Equity (RM'000)



CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, it gives me great pleasure to report on the activities undertaken by the Company and the Group in 2015.

FINANCIAL HIGHLIGHTS

Our Group achieved a revenue of RM1,641 million, with an Earnings Before Interest, Tax, Depreciation and Amortisationof RM263.14 million and profit after tax and minority interest of RM49.53 million for the financial year ended 31 December 2015 ("FYE 2015"). Compared to the previous year, the lower revenue in FYE 2015 was due to the existing jobs are towards completion stage and new secured orders are at its early stage, where approximately 67% of the new orders were secured in the second half of the financial year. Most of the revenue contributions from these new orders will be recognised in financial year ending 31 December 2016 onwards.

Despite lower revenue recognition for 2015, our Group achieved a higher profit before tax of RM124.14 million in FYE 2015 due to lower operating cost, gain arising from disposal of certain operating units, gain on foreign exchange and lower financing cost. Accordingly, the profit after tax (excluding deferred taxation) improved by RM39.30 million or 61% to RM103.72 million as compared to the financial year ended 31 December 2014.

STRATEGY CORPORATE DEVELOPMENT

Our Group had strengthened our capital base so that the Group is in a better financial position to undertake more new projects via the following exercises:

a. On 27 April 2015, KNM Group Berhad ("KNM") has completed its Rights Share Issuance of 323,157,690 new KNM shares on the basis of 1 Rights Share for every 5 KNM shares held as at 27 March 2015 together with free detachable Warrants ("Warrants B") on the basis of 1 Warrant B for every 2 Rights Shares subscribed at an issue price of RM0.50 each per Rights Share. A gross sum of about RM161,578,845 was raised.

b. Subsequently, on 12 November 2015, the Private Placement Exercise was completed upon the listing and quotation of the 193,893,700 Placement Shares at RM0.50 each on the Main Market of Bursa Securities on 12 November 2015. The gross proceeds raised from the Private Placement Exercise was RM96,946,850.

Both of the abovementioned corporate exercise had received overwhelming response from the investors and the shares offered therefrom were over-subscribed.

Besides, our Group has been actively streamlining its business organisation under its Global Transformation Plan. Consequently, our Group had on 5 February 2015, completed the disposal of its loss making KNM Pty Ltd group of companies. This had increased the overall profitability of our Group.

FUTURE PROSPECTS

Our Group's business segments are well diversified in onshore downstream industries such as petrochemical, refining and renewable energy. The petrochemical and refining industries contributed approximately 43% and 39% respectively of our Group's revenue in FYE 2015, while the renewable energy and other industries contributed the balance of approximately 18% of our Group revenue.

The weak crude oil price has relatively less adverse impact on the Group's performance. The Board expects the market conditions to be challenging with the current uncertainties in global economy. As such, our Group has strengthened its capital base by equity funding.

With our Group's active participation in the Petronas' Pengerang Integrated Petroleum Complex project and waste to energy projects, these projects are expected to cushion any potential impacts arising from the current oil and gas market uncertainties.

One of our Group's long term strategies is to develop future recurring income stream, especially in renewable energy industries. Accordingly, our Group has undertaken the development of an 80 MW waste to energy power plant in Peterborough, United Kingdom ("the Project"). The detailed engineering works of the Project have commenced in October 2015 and the preliminary site construction is ongoing. The Project will generate recurring income stream to our Group once it commences operation in 2018.

APPRECIATION

On behalf of the Board, I would like to convey our sincere gratitude to our shareholders, clients, affiliates, financiers and business partners, for your continuing support, invaluable trust and unwavering confidence in our Group.

The Board of Directors and I also wish to express our heartfelt thanks to the employees of our Group for their contribution, dedication and untiring commitment that have been significant to our Group's success.

Last but not least, I wish to record my gratitude to my fellow Board members for their invaluable advice and guidance and timeless commitment in steering our Group to take on new challenges and to continually achieving new milestones for KNM.

Dato' Ab Halim Bin Mohyiddin
Chairman

PROFILE OF DIRECTORS

DATO' AB HALIM BIN MOHYIDDIN, DPMS

Independent Non-Executive Chairman
Aged 70, Malaysian

Dato' Ab Halim bin Mohyiddin was appointed to the Board of KNM Group Berhad on 14 June 2003 as an Independent Non-Executive Director and was subsequently designated as a Senior Independent Non-Executive Director on 29 June 2011. Thereafter, he was re-designated as the Chairman of the Company on 29 April 2013.

He graduated with a Bachelor of Economics (Accounting) from University of Malaya in 1971 and thereafter joined Universiti Kebangsaan Malaysia as a Faculty Member of the Faculty of Economics. He obtained his Masters of Business Administration degree from University of Alberta, Edmonton, Alberta, Canada in 1973. He retired from KPMG/KPMG Desa Megat & Co. on 1 October 2001, a firm he joined in 1977 and had his early accounting training in both Malaysia and United States of America. He was made Partner of the Firm in 1985. At the time of his retirement, he was Partner-in-Charge of the Assurance and Financial Advisory Services Divisions and was also looking after the Secured e-Commerce Practice of the Firm. He has extensive experience in tax, audit, corporate turnaround and financial restructuring of various companies and has also acted as Receiver and Manager and Liquidator for several companies during his tenure with KPMG.

Dato' Ab Halim is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants (MIA). He is currently the Chairman of the Education and Training Committee of MICPA. He served as a member of the Education Committee of the International Federation of Accountants (IFAC) from 2001 to 2005. He was the President of MICPA from June 2004 to June 2007 and a Council Member of MIA from 2001 to 2007.

Presently, he is the Chairman of MISC Berhad and a Board member of Amway (Malaysia) Holdings Berhad and Petronas Gas Berhad.

Dato' Ab Halim is the Chairman of the Audit Committee and Nomination Committee and is a member of the Remuneration Committee.

IR LEE SWEE ENG

Group Chief Executive Officer/Executive Director
Aged 60, Malaysian

Ir Lee Swee Eng founded the KNM Group in 1990 as a private company specializing in fabrication and manufacturing of process equipment for the oil and gas industry and developed it into a global process equipment manufacturer and total solutions provider for the oil, gas and petrochemical and energy industries since its inception in 1990. He is responsible for overseeing the strategic direction and management of the Group's operations and was appointed Group Managing Director of KNM Group Berhad on 14 June 2003. He was re-designated as Executive Chairman/ Group Chief Executive Officer on 3 September 2010. He remains the Group Chief Executive Officer/Executive Director of the Company although he had relinquished his position as Executive Chairman of KNM Group Berhad on 29 April 2013.

Ir Lee Swee Eng graduated in 1979 with a Bachelor of Science (First Class Hons) in Mechanical Engineering from the University of Strathclyde in Glasgow, Scotland. He had served with Exxon in 1976 as a Production Specialist and with Petronas, the Malaysian National Oil Corporation from 1979 to 1985 in various capacities ranging from Production Engineer, Project Development Engineer and Resident Engineer to Project Leader for major oil and gas development projects. He worked with John Brown E & C Inc of United States of America as a Project Engineer on international assignments for its San Miguel Project, Bakersfield California in 1986 and subsequently joined the Technip Group's Malaysian subsidiary, Technip Geoproduction (Malaysia) Sdn Bhd as its Director and eventually, Managing Director from 1986 to 1990.

PROFILE OF DIRECTORS
(cont'd)

He is a Registered Professional Engineer since 1984 and a Fellow Member of the Institution of Engineers, Malaysia since 1993 and was the founding Chairman of the Institute of Engineers, Malaysia, Petroleum Division. He is also a Council Member and a Fellow Member of the Institute of Materials, Malaysia for the 2014 to 2016 term. He is a Board member of the Malaysian German Chamber of Commerce and Industry since 30 June 2011 and was its President for the 2012/2013 term.

He formerly served as a Council Member of the Federation of Malaysian Manufacturers (FMM) and was a member of the Executive Committee of the Malaysian Iron and Steel Industry Federation (MISIF) from 2000 to 2004. He was also the founding Chairman of the MISIF Boilers and Pressure Vessels Group and the Institution of Engineers, Malaysia Oil and Gas Technical Division. He was elected a Member of the International Council of Pressure Vessels Technology as representative from Malaysia from 2000 to 2004 and was previously an Industry Advisory Panel Member for the Universiti Tunku Abdul Rahman's Faculty of Engineering and Science as well as the Engineering Faculty of Monash University.

Ir Lee Swee Eng also serves as a member of the Remuneration Committee. He is not a Director of any other public companies.

Ir Lee Swee Eng is the spouse of Mdm Gan Siew Liat and the brother-in-law to Mr Chew Fook Sin.

DATO' DR KHALID BIN NGAH

Senior Independent Non-Executive Director
Aged 69, Malaysian

Dato' Dr Khalid bin Ngah was appointed to the Board of KNM Group Berhad on 19 August 2011 as an Independent Non-Executive Director and was re-designated as a Senior Independent Non-Executive Director on 29 April 2013.

Dato' Dr Khalid bin Ngah graduated in 1970 with a Bachelor of Science (Hons) in Geology from the Carleton University in Ottawa, Canada. Thereafter, he obtained his Master of Science degree in Petroleum Geology from Oklahoma State University, United States of America, in 1975 under the Malaysian Federal Government's sponsorship. He then furthered his tertiary education and completed his doctorate PhD degree in Petroleum Geology from the Imperial College, University of London, United Kingdom, under the Petronas sponsorship in 1990.

He first served with the Malaysian Geological Survey Department as the State Geologist for Negeri Sembilan before moving to Petronas, the Malaysian National Oil Corporation from 1975 to 1997, and held various technical and managerial positions. He was actively involved in the development of national oil and gas policies leading to the development of PSC contract documents.

After obtaining his doctorate degree, he returned to serve Petronas as its General Manager of Exploration and Production Research, with emphasis on determining oil and gas resource potentials and techniques to enhance oil and gas recoveries before opting for optional retirement in 1997. He was also the External Examiner for UTM Skudai, Johor (1995-1997) and was previously appointed as Joint Managing Director of Kedah Cement Berhad and Executive Chairman of FPSO Tech Sdn Bhd. He was formerly an Independent Director of Eastern Pacific Industrial Corporation (EPIC) Berhad too.

Dato' Dr Khalid is a board member of KNM HMS Energy Sdn Bhd. He is not a Director of any other public companies.

He is a member of the American Association of Petroleum Geologists (AAPG) and a life member and past president of the Geological Society of Malaysia. He was awarded the Achievement Award from AAPG in 1994 for "Advancement in Malaysian Petroleum Industry and for Contribution to AAPG as Regional Advocate".

Dato' Dr Khalid is the Chairman of the Remuneration Committee and ESOS Committee and is a member of the Audit Committee and Nomination Committee.

PROFILE OF DIRECTORS
(cont'd)

DATO' SRI ADNAN BIN WAN MAMAT

Independent Non-Executive Director
Aged 56, Malaysian

Dato' Sri Adnan bin Wan Mamat was appointed to the Board as an Independent Non-Executive Director of KNM Group Berhad on 24 April 2014.

He graduated with a Bachelor Degree in Business Administration from the University of Kyoto, Japan in 1984.

He began his career as Corporate Manager of Ramada Beach Resort Kuantan from 1986 to 1993 before joining the Pahang Chief Minister's Office as Economic Advisor to the Chief Minister until 1998. Thereafter, he served as Vice President of the Kuantan Municipal Council in 1998 to 2000 and was the Political Secretary to the Ministry of Information, Malaysia from 1999 to 2004. He was subsequently elected as a Member of Parliament for the Indera Mahkota District in Pahang for the period 2004 to 2008. From 2008 to 2013, he was the State Assembly Member for Tanjung Lumpur, Kuantan, Pahang and was also appointed as a State Executive Committee (EXCO) member, heading the Pahang State Youth and Sports Committee.

Dato' Sri Adnan is currently a board member of Inno Biologic Sdn Bhd since 2007. He is not a Director of any other public companies.

Dato' Sri Adnan is a member of the Audit Committee of the Company.

SOH YOKE YAN

Independent Non-Executive Director
Aged 48, Malaysian

Mdm Soh Yoke Yan was appointed to the Board as an Independent Non-Executive Director of KNM Group Berhad on 14 March 2013.

Mdm Soh is qualified with a professional degree from the Chartered Institute of Management Accountant (CIMA, UK) and holds a Diploma in Management Accounting with Tunku Abdul Rahman College. She is also a member of Malaysian Institute of Accountants (CA, MAL) and Associate Member of Chartered Management Accountant (ACMA, UK). She was engaged with public listed companies of different industries and has more than 15 years of corporate and commercial accounting experiences.

She joined Isyoda Corporation Berhad as a Financial Controller in 2003 prior to her appointment as an Executive Director of Isyoda Corporation Berhad in 2006. She also sits on the Board of several other private limited companies.

She is a member of the Audit Committee, Nomination Committee, Remuneration Committee and ESOS Committee of the Company.

GAN SIEW LIAT

Executive Director
Aged 55, Malaysian

Mdm Gan Siew Liat is primarily responsible for the Group's human capital functions. She has been with the KNM Group since 1990 and was appointed as an Executive Director of KNM Group Berhad on 14 June 2003.

She was awarded a Certificate in Personnel Management from the Malaysian Institute of Personnel Management, and completed a Dale Carnegie course in Effective Speaking and Human Relations at the Dale Carnegie Institute of Houston in the United States of America. In 1990, she joined the Inter Merger Group as Administration Manager.

Mdm Gan is a member of the ESOS Committee. She is not a Director of any other public companies.

Mdm Gan Siew Liat is the spouse of Ir Lee Swee Eng and the sister-in-law to Mr Chew Fook Sin.

PROFILE OF DIRECTORS
(cont'd)

CHEW FOOK SIN

Executive Director
Aged 60, Malaysian

Mr Chew Fook Sin is primarily responsible for the EPCC projects for the Plant and Technology Division of KNM Group. He has been with the Group since 1995 and was appointed as an Executive Director of KNM Group Berhad on 14 June 2003.

He graduated with a Bachelor of Science in Electrical Engineering from the University of Arkansas, United States of America in 1987, then joined the Broadcasting Department of Malaysia. In 1990, he joined the Inter Merger Group as General Manager. He subsequently joined the KNM Group as Procurement Manager in 1995, and was promoted to Vice President (Manufacturing) in 1999 and Director, Commercial Division in 2002.

He is not a Director of any other public companies.

Mr Chew Fook Sin is the brother-in-law to Ir Lee Swee Eng and Mdm Gan Siew Liat.

Notes:
1. *Save for Ir Lee Swee Eng, Mdm Gan Siew Liat and Mr Chew Fook Sin, all other Directors of KNM Group Berhad are not related to any family members of the Directors and/or major shareholders of the Company.*
2. *All Directors have no conflict of interests with the Company.*
3. *All Directors have no conviction for offences within the past 10 years.*

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of KNM Group Berhad ("the Board") is guided and committed to continuously uphold the principles and best practices and to attain high standards of good corporate governance within the Group. The following paragraphs sets out the manner in which the Group has in all material aspects, complied with the principles and recommendations of the Malaysian Code on Corporate Governance 2012 throughout the financial year under review except as otherwise stated.

THE BOARD

Role and Principal Responsibilities

The Company is headed by the Board who leads and plays a key role in driving the overall performance of its Group by setting up the strategic direction and objectives of the Group, reviewing the adequacy and integrity of the Group's risk management and internal control systems, ensuring a management succession plan as well as having a dedicated investor relations programme and shareholders' communication policy in place. The Board maintains a close and effective working partnership with the management in achieving the above mission and is guided by the Board Charter in the performance of its duties.

The Board is chaired by a Non-Executive Director whilst the Group Chief Executive Officer position is helmed by an Executive Director. Their roles and responsibilities are clearly divided to ensure a balance of power and authority. In addition, the roles and responsibilities of the Chairman and Group Chief Executive Officer/Executive Director are well defined whereby, the Board is led by the Chairman to ensure its effective functioning whilst the management is led by the Group Chief Executive Officer/Executive Director in formulating the annual business plan to enhance the Company's business growth and create shareholders' value, and implementing the Board's policies, strategies and decisions as well as managing the business operations.

However, certain key matters are reserved to be determined by the Board. These stewardship responsibilities include, determining overall corporate strategy and business direction, determining funding needs and capital expenditure, approving financial plans and budgets, reviewing financial statements and financial performance of the Company, ensuring necessary financial and other resources allocation to the management to facilitate successful strategy implementation as well as undertaking of corporate exercises involving mergers and acquisitions, new issues of securities, fund raising activities and so on. The Board empowers Management to operate within defined limits of authority as set by the Board to ensure efficiency in carrying out day-to-day operations of the Company.

Standards of Conduct and Best Practices

The Standards of Conduct and Best Practices as formulated by the Board for the members' observance are as set out in the Board Charter.

Board Charter

The Board Charter is a source of reference to guide the Board members and senior management on their roles and responsibilities. It also details *inter alia*, the board responsibilities, the terms of reference of the Board Committees, and the standards of conduct and best practices to be observed by the Board and Board Committees.

The Board Charter is reviewed periodically to ensure that all new regulations and legislative changes, and other relevant developments that has or may have an impact on the Group's businesses are taken into account when necessary.

The Board Charter may be gleaned from the Company's website at www.knm-group.com.

CORPORATE GOVERNANCE STATEMENT
(cont'd)

Board Composition

The establishment of an active and independent Board of Directors is paramount in improving corporate governance practices. During the financial year under review, the Board comprised of seven (7) Directors, three (3) of whom are Executive Directors while the rest are Independent Non-Executive Directors who make up more than one-half of the Board. In addition, approximately one-third of the Board is represented by the feminine gender.

Together, the Board members with their different age, financial, commercial, technical and operational expertise as well as business acumen and skills, brings with them a wide and diverse range of experience essential in the management and direction of the Company. In view of the composition of the Board and having regard to the calibre of the Directors and their diverse range of skills, expertise and experience; the interest of investors, including the Company's minority shareholders, are adequately protected and advanced. The profiles of the members of the Board are set out in the Profile of Directors section of this Annual Report.

The Independent Non-Executive Directors are independent of management and are free from any and all business or other relationship which may materially affect or interfere with the exercise of their independent judgment. The role of the Non-Executive Directors is to constructively review and help develop proposals on strategy, scrutinise the performance of management in meeting agreed objectives, as well as monitoring the reporting of the Group's performance including satisfying themselves on the integrity of financial information, financial control and risk management systems that have been put in place by the Company, are effective. Any queries or concerns regarding the Group may be conveyed to Dato' Ab Halim bin Mohyiddin, the present Chairman or Dato' Dr Khalid bin Ngah, the Senior Independent Non-Executive Director or any other Independent Directors of the Company.

None of the Board members hold positions in other boards of public companies exceeding the prescribed limits. All Directors are committed and have devoted their time and effort to fulfil their obligations by *inter alia*, attending and participating actively in the Board and Board Committee Meetings, general meetings of the Company and such other events/functions organised by the Company.

Board Meetings and Supply of Information

The Board meets on a scheduler basis of at least four (4) times a year. Additional Board meetings will be convened as and when necessary. Dates for Board meetings are decided in advance after consultation with all Board members. During the financial year under review, five (5) Board meetings were held. The attendance of each Director at the Board meetings is as set out below:-

	Number of meetings attended	%
Dato' Ab Halim bin Mohyiddin	5/5	100
Ir Lee Swee Eng	5/5	100
Dato' Dr Khalid bin Ngah	5/5	100
Dato' Sri Adnan bin Wan Mamat	4/5	80
Soh Yoke Yan	5/5	100
Gan Siew Liat	5/5	100
Chew Fook Sin	5/5	100

The Board has a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Company are firmly in the Board's hand. In consultation with the Board, the Group Chief Executive Officer/Executive Director and the respective committees and/or management team, where applicable, will develop the Group's corporate objectives and set out the limits of empowerment for the committees' or management's committees' authority, duties and responsibilities.

The Board stresses on having timely reports and full access to quality information which is not just historical or financial oriented but information which goes beyond assessing the quantitative performance of the Company and/or the Group. The Board also looks at other information such as customer satisfaction, product and service quality, market share, market reaction and so forth, thereby enabling each Board member to participate in Board deliberations and decisions as well as discharge their duties effectively.

CORPORATE GOVERNANCE STATEMENT
(cont'd)

The Group Chief Executive Officer/Executive Director assisted by the Company Secretary, undertakes primary responsibility for organizing information necessary for the Board to deal with at Board meetings as well as the circulation of Board papers to all Board members in a timely manner to facilitate effective deliberations of matters brought up in meetings. During the course of a meeting, proposals put forth by management to the Board for the Board's deliberation and decision are provided with written reports and supporting documents with due facts, analysis and recommendations. The Chairman ensures that all Board members are given ample opportunity to express their views and opinions during the meeting. Constructive debates on issues before the Board are highly encouraged. External parties and management representatives may present to provide additional insights into matters to be discussed during Board meetings. Advisers and professionals appointed by the Company in relation to any corporate proposals would be invited to attend Board meetings to explain, advice and clarify any issues raised.

The Board is briefed on issues raised at Board and Board Committees meetings. All discussions, decisions and conclusions are duly recorded in the minutes of meeting. Such minutes are subsequently circulated to ensure that all Directors are kept well informed of the Board's and Board Committees' activities and recommendations. These minutes are kept by the Company Secretary and are open to inspection by the Directors at any time.

Access to Information and Advice

The Directors, whether individually or as a full Board, have full and direct access to all information of the Company and advice of the Company Secretary and independent professionals at the Company's expense in furtherance of their duties, wherever necessary and on a case to case basis depending on the complexities of the matter involved.

Currently, the Group's Company Secretary effect all proper documentation, to meet all statutory obligations and compliances as well as to support the Chairman of the Board in ensuring the effective functioning of the Board. The Company Secretary meets the requirements for the discharge of her duties and her removal is a matter for the Board as a whole.

Appointments to the Board and Re-election of Directors

All appointments to the Board and its various Board Committees are assessed and considered by the Nomination Committee. In making these recommendations, due consideration is given to the required mix of skills, knowledge, expertise, experience, professionalism and integrity that the proposed candidate(s) shall bring to complement the Board and/or Board Committees. The Board may also consider and exercise judgment in determining the appropriate number and size of the Board relative to the level of investment by the shareholders in the Company.

In compliance with the Bursa Malaysia Securities Berhad's Main Market Listing Requirements ("Listing Requirements") and the provisions of the Company's Articles of Association, all Directors of the Company shall retire from office at least once in every three (3) years but shall be eligible for re-election at the annual general meeting. New Director(s) appointed during any year shall retire and seek re-appointment at the next annual general meeting. This provides an opportunity for shareholders to renew their mandates and ensures that shareholders have a regular opportunity to re-assess the composition of the Board.

Section 129(6) of the Companies Act, 1965 ("the Act") provides that, a Director who attained the age of seventy (70) years shall retire and is eligible to submit himself or herself for re-appointment at each annual general meeting to hold office until the conclusion of the next annual general meeting of the Company.

Independence

The Board is chaired by a Non-Executive Director whilst the Group Chief Executive Officer position is helmed by an Executive Director. There is a separation in the functions, roles and positions of the Chairman and Group Chief Executive Officer/Executive Director to promote accountability and facilitate division of responsibilities between them. The Chairman leads and encourages constructive and healthy debates to ensure Board effectiveness and that resolutions are circulated and deliberated so that all Board decisions reflect the collective view of the Board and not the views of an individual or small group of individuals.

The Board recognises that independence and objective judgement are crucial and imperative in decision making process. Hence, Independent Directors play an essential role in upholding good corporate governance. The Nomination Committee will undertake annual assessments of the Board, the Board Committees and each of its board members. The Nomination Committee will also evaluate and ensure that those Independent Director who have served a tenure exceeding 9 years are independent and will exercise their independent judgment and act in the best interest of the Company in safeguarding the interest of the minority shareholders.

Under the recommendation of the MCCG 2012, the tenure of an Independent Director shall not exceed a cumulative term of 9 years or the subject Independent Director shall be re-designated as Non-Independent Director. In the event that the Board wishes to retain the said Director as Independent Director, an approval from the shareholders shall be obtained at the annual general meeting.

THE BOARD COMMITTEES

As managing and controlling companies have become more complex and demanding, where appropriate, the Board resorts to the various Board Committees to assist the Board in discharging its duties and responsibilities. The existence of Board Committees does not diminish the Board's responsibility for the affairs of the Company as the Board will review the recommendations of the various Board Committees as well as the feedbacks from the management.

Currently, there are four (4) standing Board Committees, comprising the Audit Committee, Nomination Committee, Remuneration Committee and Employees Share Option Scheme ("ESOS") Committee. Each Board Committee operates within the approved and clearly defined terms of reference and reports to the Board with their findings and recommendations. Extension of such authority may be expressly given for a specific purpose and the Board may delegate to such Board Committees or other *ad hoc* Committees to act on its behalf.

Audit Committee

All the present Audit Committee members are Independent Directors. The Audit Committee is chaired by the Independent Non-Executive Chairman who is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. Its other members comprise the Independent Non-Executive Directors. The duties of the Audit Committee include *inter alia*, reviewing the Group's accounting policies, financial reporting procedures, the Group's system of internal controls, status of the Group's risks and approval of the annual internal audit plan. In addition, all the Audit Committee members are able to read, analyse and interpret the quarterly results and year end financial statements from the external auditors in order to effectively discharge their functions.

The Company's internal and external auditors do attend at the Audit Committee meetings and they have the opportunity to raise matters or concerns independently or separately with the Audit Committee without the presence of any Executive Director or management staff. The Chairman and Audit Committee members have free and direct access to consult, communicate and enquire with any senior management of the Company and the external and internal auditors of the Company at any time to stay informed of all matters affecting the Company.

The Audit Committee has explicit authority to investigate any matter within its terms of reference and full access to all information and resources required. The composition, terms of reference and the activities of the Audit Committee during the financial year under review are set out in the Audit Committee Report.

Nomination Committee

The Nomination Committee comprises three (3) members, all of whom are exclusively Independent Non-Executive Directors. It is chaired by an Independent Non-Executive Director who is also the Chairman of the Board. The Board believes that the Chairman is well placed to act on behalf of the Board and able to ensure that the Nomination Committee meets the needs of the Company. The Nomination Committee is mainly responsible for assessing and recommending candidates with the required mix of skills and attributes to fill Board and Board Committees vacancies as well as review or evaluate the appropriate balance, size, optimum mix of skills, experience and other qualities including core competencies which Non-Executive Directors will bring to the Board. The Nomination Committee recommends to the Board, those Directors who are seeking approvals from the Company's shareholders at annual general meetings to be re-elected or re-appointed. The Nomination Committee also assesses on an annual basis the effectiveness of the Board as a whole and the Board Committees as well as the respective individual Directors' performance and contribution. All assessments and evaluations are duly discussed and recorded in the minutes of meeting.

The Nomination Committee will meet at least once a year. During the financial year under review, the Nomination Committee met up twice and the attendance of each member at the meetings is as set out below:-

	Number of meetings attended	%
Dato' Ab Halim bin Mohyiddin (Chairman)	2/2	100
Dato' Dr Khalid bin Ngah	2/2	100
Soh Yoke Yan	2/2	100

Activities of the Nomination Committee carried out during the financial year under review were as follows:

i) assessment and evaluation of the performance of the Board and Board Committees and individual Director, and the independence of the director(s);

ii) recommending for the Board's approval:-
   a) the retiring director(s) to be re-elected;
   b) the independent director(s) whose tenure is/are above a cumulative term of 9 years to be retained as Independent Director(s) of the Company; and
   c) the re-appointment of the director(s) who having attained 70 years' of age or more to be re-elected or retained or re-appointed at the forthcoming annual general meeting.

Remuneration Committee

The Remuneration Committee comprises three (3) Independent Non-Executive Directors and the Group Chief Executive Officer/Executive Director. It is chaired by the Senior Independent Non-Executive Director. The Remuneration Committee is responsible for recommending to the Board, *inter alia*, the remuneration of the Executive Directors, in all its forms, drawing from outside advice as necessary. With the availability of Directors remuneration policy and market survey information from external sources or human resources consultants, the Remuneration Committee ensures that the remuneration packages recommended are appropriate and competitive. All recommendations of the Remuneration Committee in respect of remuneration packages of the Executive Directors are referred to the Board for approval.

The Company's remuneration scheme is linked to performance, service seniority, experience and scope of responsibilities. The Remuneration Committee ascertains and recommends the remuneration packages of the Executive Directors, including the Group Chief Executive Officer/Executive Director in accordance with the Company's policy guidelines that strongly link remuneration to performance and benchmark the remuneration against that of the market surveys conducted by external sources or human resource consultants periodically.

Determination of Directors remuneration packages, be it that of the Executive Directors or the Non-Executive Directors, is a matter for the Board as a whole. No Director shall take part in any discussion or decision concerning his or her remuneration. Fees are paid to the Directors subject to the approval of shareholders at the annual general meeting.

CORPORATE GOVERNANCE STATEMENT
(cont'd)

The Remuneration Committee met twice during the financial year under review, and the attendance of each member at the meeting is as set out below:-

	Number of meetings attended	%
Dato' Dr Khalid bin Ngah (Chairman)	2/2	100
Dato' Ab Halim bin Mohyiddin	2/2	100
Ir Lee Swee Eng	2/2	100
Soh Yoke Yan	2/2	100

ESOS Committee

The ESOS Committee comprises three (3) members that consist of the Senior Independent Non-Executive Director as the Chairman, an Independent Non-Executive Director and an Executive Director. The ESOS Committee is primarily responsible for *inter alia*, recommending to the Board, the criteria and allocation of any ESOS Options to be granted to eligible employees and directors of the Company and its subsidiaries and ensuring that all exercises of ESOS Options are in compliance with the Listing Requirements and in accordance with the ESOS By-Laws and Company's Articles of Association which shall be in force from time to time. The ESOS Committee shall meet whenever necessary to fulfil its functions.

The ESOS Committee did not conduct any meeting during the financial year under review as there were no fresh issuance of ESOS Options that were allocated to the eligible directors and employees of the Group (save and except for the previous ESOS Options which has been granted and adjusted pursuant to the completion of KNM's Rights Issue Exercise on 27 April 2015).

DIRECTORS' REMUNERATION

The primary objective of the Group's remuneration policy is to attract and retain the Directors who perform and lead the Group. The remuneration of each Director generally reflects the level of responsibility and commitment.

For Non-Executive Directors, the level of remuneration is reflective of their experience and level of responsibilities, whereas, the component parts of remuneration package of the Executive Directors are structured to link to corporate and individual performance in line with the Company's remuneration policy for its Directors.

The Remuneration Committee reviews annually the salaries of the Executive Directors and formulates recommendation to the Board for approval. The individuals concerned will abstain from all deliberations and decisions affecting his or her remuneration and that of the persons deemed connected to him or her.

The aggregate remuneration of the Company's Directors for the year under review is categorised into appropriate components as follows:-

Category of Directors	Fee (RM'000)	Salary* (RM'000)	Other emoluments** (RM'000)	Benefits-in-kind ESOS***	Benefits-in-kind Others**** (RM'000)	Total (RM'000)
Executive Directors	436	4,204	1,099	–	25	5,764
Non-Executive Directors	741	–	51	–	–	792
Total	1,177	4,204	1,150	–	25	6,556

CORPORATE GOVERNANCE STATEMENT
(cont'd)

Notes:

* *The salary is inclusive of statutory employer's contribution to Employees Provident Fund.*

** *Other emoluments include bonuses and allowances.*

*** *For the financial year under review, all the Directors were offered share options under the Company's ESOS pursuant to the shareholders' mandate obtained at the Company's Extraordinary General Meeting held on 18 April 2014, save and except for an Independent Non-Executive Director who was appointed in 2014. However, no ESOS Options were exercised by the Directors during the financial year under review.*

**** *Other benefits include the provision of hand-phones and company cars.*

The aggregate remuneration of the Company's Directors as analysed into bands for the year under review are as follows:-

Range of Remuneration	Executive Directors	Non-Executive Directors	Total
RM150,001 to RM200,000	–	2	2
RM200,001 to RM250,000	–	2	2
RM1,100,001 to RM1,150,000	1	–	1
RM1,150,001 to RM1,200,000	1	–	1
RM3,450,001 to RM3,500,000	1	–	1
Total	3	4	7

DIRECTORS' TRAINING

The Company realizes and stresses the importance of training and having continuous upgrading of skills, knowledge and competencies as the strategic advancement and competitive tool not just for the Company but also for personal development of the respective Directors and the relevant staff. The Company is committed to ensure that its Directors receive continuous education and further training updates from time to time. The Board shall, on a continuous basis, evaluate and determine the training needs of its members and subject matters of training that aid the Directors in the discharge of their duties as Directors.

All the current Directors of the Company have attended and completed the Mandatory Accreditation Programme and will undergo continuous training or education programmes from time to time to equip and keep themselves abreast of the latest developments in order to discharge their duties and responsibilities more effectively. A brief description of the various training or courses attended by the Directors for the financial year under review are as set out below:-

Title of the training programme/ Name of organizer	Date
GST for Property Developers & Construction Industry / *Malaysian Institute of Accountants*	18 March 2015
Nominating Committee Programme: Part 2 - Effective Board Evaluations / *Bursa Malaysia Berhad*	6 April 2015
Board Chairman Series Part 2: Leadership Excellence from the Chair / *Bursa Malaysia Berhad*	27 July 2015
Leadership Excellence: Lifelong Learning / *Securities Industry Development Corporation*	12 November 2015
Corporate Board Leadership Symposium / *Malaysian Institute of Accountants*	3 December 2015

ACCOUNTABILITY AND AUDIT

Financial Reporting

Shareholders are provided with fair assessments on the Company's financial performance and prospects vide timely issuance of all quarterly reports, annual audited financial statements and announcements on significant developments affecting the Company in compliance with the Listing Requirements and/or the Act.

The Board is assisted by the auditors, the Company Secretary and the Audit Committee to scrutinize information for disclosure to ensure its timeliness, accuracy and adequacy.

Directors' Responsibilities for the Financial Statements

Pursuant to the Act, the Directors are required to prepare and ensure that financial statements are drawn up in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Act so as to give a true and fair view of the state of affairs of the Company and the Group for each financial year.

The Directors have overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to detect and prevent frauds or other irregularities. The Directors are also responsible for ensuring that the Company keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Company and the Group and in compliance with the applicable approved accounting standards and the provisions of the Act.

The annual financial statements are audited by external auditors in accordance with the approved standards on auditing in Malaysia and they continue to remain independent throughout the conduct of their audit engagement. In conducting the audit, the external auditors will obtain reasonable assurance that the financial statements are free of material misstatements. The external auditors assess the accounting principles used and significant estimates made by Directors in addition to evaluate the overall presentation of the financial statements.

Internal Controls and Internal Audit Functions

The Board has overall responsibility for maintaining a sound system of internal controls to safeguard shareholders' investment and the Group's assets, which encompasses risk management, financial, organizational, operational and compliance controls necessary for the Group to achieve its objectives within an acceptable risk profile. These controls can only provide reasonable but not absolute assurances against material misstatements, errors of judgment and losses or frauds.

Internal Audit function is established by the Board for the Group to review the adequacy of operational controls system, and in identifying, evaluating, monitoring and managing risks to provide reasonable assurance that such system will continue to operate satisfactorily and effectively in the Group. The Internal Audit function adds value and improves the Group's operations and assist the Audit Committee to effectively discharge its duties by providing independent and objective assurance.

The Internal Audit function reports directly to the Audit Committee and operates in accordance with the framework set out by the Internal Audit Charter as approved by the Audit Committee. It is independently positioned to assist the Board and Audit Committee in obtaining the assurance they require in relation to the effectiveness of the Group's system of internal controls. The Head of Internal Audit regularly reviews and appraises the systems of risk management, internal controls and governance processes within the Company and/or the Group.

The Company's Internal Audit function is competently and adequately resourced to fulfil its purpose and perform its activities. It is currently managed and performed in-house and fortified with the assistance of an independent external firm of professional internal auditors, and the costs attributable to the discharge of duties and performance of the Internal Audit function of the Company for the financial year under review is RM487,331 (2014: RM488,916).

More details of the system of internal controls of the Company are set out in the Statement on Risk Management and Internal Control.

Relationship with the Auditors

The Company maintains a transparent and professional relationship with its internal and external auditors at all times. Under its terms of reference, the Audit Committee has explicit authority to communicate directly with the Company's internal and external auditors. The Audit Committee reviews the appointment of the Company's external auditors and the fees payable to them on an annual basis. Meetings with the senior management, internal and/or external auditors are held as appropriate to discuss any issues arising from the interim and final audits, audit plans, audit findings and any other matters of concern that the internal and/or external auditors may wish to discuss. The Audit Committee meets the external auditors at least twice a year or whenever deemed necessary without any management or Executive Board members present.

The Audit Committee also receives other information such as that of the non-audit services provided by the external auditors. Based on such information, the Audit Committee has no reason to believe that such engagements have impaired or would impair the independence of the external auditors.

Further details of the terms of reference and activities of Audit Committee during financial year under review are set out in the Audit Committee Report.

CORPORATE DISCLOSURE

The Board is mindful that disclosure of material information shall be factual, clear, unambiguous, accurate, succinct, and contains sufficient information to enable investors to make informed investment decisions. In addition, it shall be on a timely basis so as to enable all investors to have equal access to such material information.

In respect thereto, the Board is guided by the Listing Requirements and Corporate Disclosure Guide in making all material disclosures to the shareholders and investors.

SHAREHOLDERS

The Company provides an open channel of communication with its shareholders, institutional investors and the investing public at large with the objectives of *inter alia*, providing timely, clear and complete information of the Group's operations, updates, performance and new development based on permissible disclosures. The Company values feedbacks and dialogues with its investors, and believes that a constructive and effective investor relationship is essential to enhance shareholders' value.

Communication with shareholders is also maintained by way of immediate announcements made in connection with material developments in the Company's business and operations in addition to the timely issuance of quarterly and annual reports. Whilst the Company is endeavour to provide as much information as possible to its shareholders and other stakeholders, it is mindful of the legal and regulatory framework governing the release and disclosure of material and/or price-sensitive information. Information which is price-sensitive or those which may be regarded as undisclosed material information about the Group will not be disclosed until after the prescribed announcement has been released to Bursa Malaysia Securities Berhad ("Bursa Securities").

Investor Relations

The Company uses the following key investor relations activities to update its investors:-

1) holding briefings, plant visits, conference calls and meetings with the institutional fund managers and financial analysts;

2) participating in roadshows and investors' conferences, both domestically and internationally; and

3) establishing a website at www.knm-group.com for easy access and dissemination of the Group's corporate information, quarterly and annual financial results, annual reports, announcements to Bursa Securities, news and latest happenings.

Annual General Meeting

Shareholder meetings, especially the annual general meetings, represent an important platform and forum for dialogue and interaction between the Company and its shareholders. Such general meetings are normally attended by all Directors. Explanations are provided during shareholders' meetings in relation to proposed resolutions on key corporate proposals to enable shareholders to make informed decisions. Notice of general meetings provides separate resolutions to be proposed at the general meetings for each distinct issue and any item of special business included in a notice of general meeting is accompanied by an explanatory note on the effects of the proposed resolution. Voting is generally conducted by a show of hands although shareholders may demand a poll for any resolutions tabled at the Annual General Meeting subject to the provisions of the Company's Articles of Association. Questions from and interaction with shareholders are encouraged to further enhance communication between shareholders and the Board.

The Company's external auditors and the relevant advisers of the Company will attend such general meetings upon invitation and be available to answer questions raised where appropriate. The Company always accord sufficient time for discussion and questions at general meetings, and ensures all questions and issues are properly addressed and explained thereat. All general meetings are recorded by the Company Secretary in the minutes of the meeting, and copy of which is posted on the Company's website and available for inspection at the Company's registered office.

In addition, a press conference will generally be held immediately after such general meetings whereat, the Directors would explain and clarify any issues posed by the members of the media regarding the Company, save and except for such information that may be regarded as material or price sensitive in nature, which disclosure shall be made in strict adherence to the disclosure requirements as prescribed under the Listing Requirements and other various contractual or statutory rules and provisions that the Group may be subjected to.

CORPORATE SOCIAL RESPONSIBILITY ("CSR")

The Group is committed to observe and assist in elevating the social well being of the community and carries out its CSR in any manner possible to promote humanitarian works to underprivileged and deserving ones as well as to ensure the sustainability of the environment, both locally and on the international front.

To the Company, CSR starts by integrating business practices that are based on ethical values and respect for the community, environment, shareholders and other stakeholders. The Group CSR framework is designed to deliver sustainable value to the society at large, and ensure the interest of the public, including that of the investors in general is adequately protected and the relevant regulatory requirements for which the Company and/or the Group are subjected to will be duly complied with. The Group continually strives to be a good, caring and responsible corporate citizen.

Presently, the Group CSR framework focuses on four main areas, being the environment, the workplace, the community and the marketplace, in no particular order of priority.

Environment

The Group manages its operations in a manner which minimises environmental impacts and devotes to all the applicable environmental regulations in its consumption of resources and generation of waste processes. The Group's Health, Safety and Environment Division establishes, regulates and enforces, amongst others, the relevant environmental policies, rules and regulations for the Group.

CORPORATE GOVERNANCE STATEMENT
(cont'd)

The Group's move and diversification into the renewable energy and green technology sectors are based mainly, if not primarily, on the Group's dedication to support the reduction of waste and gas emissions into the environment from its business operations. The Group is immersed in the business of renewable technologies for energy, fertilisers and waste heat recovery systems, carbon dioxide capture and storage, emission control via the following involvements:-

1) extraction of biodiesel from palm oil and jatropha, and bioethanol from cassava;

2) converting waste to energy, and organic waste to organic fertiliser; and

3) engaging in sulphur and mercury removal process systems,

as well as such other systems dealing in carbon dioxide capture and storage, emission control and waste heat recovery systems, etc.

Apart thereto, wherever possible, all staff are encouraged to "repair, reduce, reuse and recycle" and adopt energy saving measures, for instance, keeping usage of paper to a minimum – on "double-sided" and on "need to" basis, switching off the air-conditioners and lights during breaks and using energy efficient bulbs, wherever possible.

Workplace

The Group acknowledges and commits to create a safe and conducive working environment for all its employees. The Group's Health, Safety and Environment ("HSE") Division establishes policies and procedures and reinforces the Group's safety culture by inculcating good safety and fire prevention practices, heightening safety awareness and providing safety gear, conducting safety talks, as well as implementing such other safety courses and training activities so as to attain zero loss time injury hours at its manufacturing facilities.

BORSIG GmbH (BORSIG Germany) had also participated in, donated and sponsored the 2015 Ammonia Plants & Related Facilities Symposium, the ACHEMA 2015 and the European Ethylene Producers Conference 2015 ("EEPC") that facilitated *inter alia*, the networking and sharing of safety information besides product knowledge.

A Fire Drill at KNM's Corporate HQ Office was conducted on 15 December 2015 in the presence of BOMBA and the POLICE. The drill was carried out as part of the Group's HSE initiatives to continuously educate KNM's staff on the importance of safety at workplace and to ensure that employees are well prepared and familiar with First Aid and Emergency Procedures during a fire.

Children of the Company's staff who have performed well in their primary and secondary school examinations are given cash rewards in recognition of their success to boost their morale and confidence, and to encourage and motivate them to pursue further studies and excel in a variety of disciplines.

As part of the human capital development, the Group conducts various in-house training programmes focusing on quality leadership, building effective performance and job related to equip the employees with improved skills and knowledge. Besides participating in seminars and trade fairs, the Group actively encourages and promotes the well being, skills development and education enhancements of its staff.

Community

The Group's main sponsorship, outreach and community investment activities include contributions, donations and philanthropic support towards various deserving and worthy causes. The Group provides internship training programmes to local diploma and vocational students for knowledge enrichment as well as complementing and nurturing talents among these students for their personal growth and future employment needs.

CORPORATE GOVERNANCE STATEMENT
(cont'd)

In the charities and sporting arena, the Group had participated in and/or contributed towards the following events in Malaysia:-

a) The Edge Kuala Lumpur Rat Race 2015/2016 – held at Jalan Ampang, Kuala Lumpur on 29 March 2016 (which was postponed from 8 September 2015 due to the bad smog situation) and proceeds were raised for various charity causes and charitable bodies in Malaysia.

b) On 2 and 3 November 2015, the Group's HSE Division carried out its annual Blood Donation drive and at the same time, initiated an Organ Donation Registration Campaign – in support of the National Blood Centre's objectives to increase the national blood supply as well as to register more organ donors in aid of suffering patients.

c) Others – KNM Group had contributed to the charity fund raising events conducted by Persatuan Sukan dan Kebajikan, Jabatan Bomba, the Persatuan Ibu-Bapa & Guru (PIBG) Sekolah Kebangsaan Lepau in Pengerang as well as the Malaysian Employers Federation.

Elsewhere within the Group's overseas subsidiaries:-

a) FBM Hudson Italiana had participated in Charity Golf Tournaments organized by Bechtel and KBR respectively and contributed to ONLUS, the Italian Association for the Blind and Impaired People besides sponsoring Evbility-Charging Station for Electric Vehicles in Presezzo, Italy.

b) Apart from sponsoring the European Ethylene Producers Conference last year, BORSIG Germany had also sponsored *inter alia*, an international sports meeting - "BORSIG Athletics Meet" in Gladbeck and held its "BORSIG Tour-theatre" in August 2015, towards promoting arts, theatre and cultural activities under the aegis of Kirschendieb & Perlensucher Kulturprojekt in Germany. BORSIG Germany continued to support and contribute towards other numerous causes, for example:-
   - UNICEF's Christmas Cards sale - for its fund raising program.
   - Wirtschaftsarchiv's archiving activities - concerning local research in relation to the promotion of regional economic history and industrial culture.
   - Funding and equipping Berlin Technical University - to offer the best possibilities to its best students.
   - Supporting Arbeitskreis Miteinander e.V. (GMT), an organization that helps newly arrived refugees in Rheinfelden, Germany.
   - Supporting the poor children in Berlin via the distribution of clothes, food and education through the Die Arche organisation; and providing warm clothes and medical assistance to the homeless during winter through the Berliner Stadtmission Kältehilfe organization.

c) KNM Canada had continued to actively sponsor the Alberta Children's Hospital Foundation and the Tofield County Family & Community Support Services in aid of the needy and the underprivileged families in Tofield with food hampers and gifts for the children. It is equally supportive of Tofield Agriculture Society's Annual Bull-Bash 2015, a bull riding - community based event held in Tofield, Canada, in addition to sponsoring its local Rodeos.

Marketplace

The Company is committed to ensure that all material information released is accurate, concise, timely and in compliance with the various regulatory requirements that the Group is subjected to.

The Company maintains good visibility and constantly interacts with its stakeholders such as investors, portfolio analysts, fund managers, bankers, government bodies and its corporate clients through a variety of channels, whereby accurate and concise information on the Group is provided through briefings, meetings, teleconferences, dialogues and visits to the Group's manufacturing facilities to enable its stakeholders to better understand its business operations.

Briefings to investors (if any) would be conducted and the presentation updates are posted and can be accessed from the Company's website at www.knm-group.com too. The Group is mindful of the expectations of the investment community and will always strategize to attain or even surpass their expectations.

CORPORATE GOVERNANCE STATEMENT
(cont'd)

ADDITIONAL COMPLIANCE INFORMATION

The following additional information is provided in compliance with the Listing Requirements:-

1. *Approved Utilisation of Proceeds Raised from Corporate Proposals announced to Bursa Securities*

(i) On 27 April 2015, KNM had completed its Rights Issue Exercise involving the issuance of 323,157,690 new ordinary shares of RM0.50 each in KNM ("KNM Shares") ("Rights Shares") on the basis of one (1) Rights Share for every five (5) existing KNM Shares held together with 161,578,504 free detachable warrants B 2015/2020 ("Warrants B") on the basis of one (1) Warrant B for every two (2) Rights Shares subscribed for. An additional 28,754,970 Warrants A 2012/2017 was also issued arising from adjustment pursuant to the Rights Issue Exercise. The proceeds raised and the utilisation thereof are as set out below:-

Purpose	Utilisation (RM'000)
Repayment of bank borrowings	116,300
Working capital	40,979
Defray expenses relating to the Exercise	4,300
Total	161,579

(ii) On 19 June 2015, Splendid Investments Limited ("Splendid"), a wholly-owned subsidiary of KNM had established a multicurrency medium term note programme of an initial size of up to S$300,000,000 (the "Programme"). The Programme is unconditionally and irrevocably guaranteed by KNM. No notes were issued by Splendid during the financial year under review until to-date.

(iii) On 12 November 2015, KNM had completed its Private Placement Exercise of 193,893,700 new ordinary shares of RM0.50 each in KNM to independent third party investor(s). The proceeds raised and its utilisation thereof are as set out below:-

Purpose	Utilisation (RM'000)
Repayment of bank borrowings	46,364
Working capital	47,908
Defray expenses relating to the Exercise	2,675
Total	96,947

2. *Share Buy-Backs*

The Company had purchased 20,000 of its own shares during the financial year under review, all of which were held as treasury shares and maintained by the Company. Details are as follows:-

Month	No. of shares bought back	Par value per share (RM)	Lowest price paid for each share (RM)	Highest price paid for each share (RM)	Average price per share (RM)	Total consideration paid (including transaction costs) (RM)
May	10,000	0.50	0.635	0.635	0.640	6,398.91
December	10,000	0.50	0.515	0.515	0.520	5,197.55
Total	**20,000**				**0.580**	**11,596.46**

3. Related Party Transactions

All related party transactions for 2015 are set out in Note 28 to the Financial Statements.

An internal compliance framework exists to ensure the Company meets its obligations, including that of related party transactions under the Listing Requirements. The Audit Committee will review all related party transactions and report the same to the Board.

A Director who has interest in a transaction abstains from deliberation and voting on the relevant resolution in respect of such transaction at the Board meeting and at any general meeting convened to consider such transaction.

4. Options, Warrants or Convertible Securities

No options, warrants or convertible securities were issued by the Company during the financial year under review, save and except for the following:-

a) additional 1,416,561 ESOS Options were adjusted pursuant to the completion of KNM's Rights Issue Exercise on 27 April 2015; and
b) 45,600 ESOS Options were exercised during the financial year.

5. American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") programme

The Company did not sponsor any ADR or GDR programme during the financial year under review.

6. Imposition of Sanctions and/or Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by any relevant regulatory bodies during the financial year ended 31 December 2015.

7. Non-Audit Fees

The amount of non-audit fees paid or payable to the external auditors and its affiliates in connection with services rendered to the Group and/or the Company for the financial year ended 31 December 2015 were as follows:-

Due/Payment to	Purpose	Amount (RM)
Messrs KPMG	Professional fees rendered for review of Statement on Risk Management and Internal Control and other engagements	10,000
Affiliates of KPMG in Malaysia	Professional fees rendered for taxation, financial and tax due diligence	118,000
Affiliates of KPMG in overseas	Professional fees rendered for taxation, financial and tax due diligence	462,000
	Total :	**590,000**

8. *Variation in Results*

There was no significant variance between the results for the financial year under review and the unaudited results previously released by the Company. The Company had not released or announced any estimated profit, financial forecast and projection for the financial year ended 31 December 2015.

9. *Profit Guarantee*

No profit guarantees were given by the Company for the financial year under review.

10. *Material Contracts*

There were no material contracts entered into by the Company and/or its subsidiaries involving Directors and/or major shareholders' interests either still subsisting at the end of the financial year ended 31 December 2015 or which were entered into since the end of the previous financial year.

11. *Contracts Related to Loans*

There were no contracts relating to a loan by the Company and its subsidiaries in respect of the preceding item, save and except for the acceptance of interest free unsecured loans advanced from the following parties and the amounts outstanding as at financial year ended 31 December 2015 are as below:-

a) From Inter Merger Sdn Bhd, a substantial shareholder to the Company - for RM37.439 million; and
b) From KNM's Director, Chew Fook Sin to the Company's wholly-owned subsidiary, KNM Process Systems Sdn Bhd - for RM347,741.53.

The advancement of the above short term interest free unsecured loans are for the Company's or subsidiary's working capital purposes and payable on demand.

AUDIT COMMITTEE REPORT

The Audit Committee ("Committee") of the Company is pleased to present the Audit Committee Report for the financial year ended 31 December 2015.

MEMBERS, MEETINGS HELD AND ATTENDANCE OF MEMBERS

The members of the Committee are totally Independent Non-Executive Directors and they comprise four (4) in numbers. The attendance of each member at the five (5) meetings held during the financial year ended 31 December 2015 are as follows:-

Name of member	Designation	Directorship of the member	Attendance
Dato' Ab Halim bin Mohyiddin	Chairman	Independent Non-Executive Chairman	5/5 (100%)
Dato' Dr Khalid Bin Ngah	Member	Senior Independent Non-Executive Director	5/5 (100%)
Soh Yoke Yan	Member	Independent Non-Executive Director	5/5 (100%)
Dato' Sri Adnan bin Wan Mamat	Member	Independent Non-Executive Director	4/5 (80%)

TERMS OF REFERENCE

(I) Meetings

Frequency

The Meetings shall be held at least four (4) times a year. Upon any request of the external auditors, the Chairman of the Committee shall convene a meeting of the Committee to consider any matter the external auditors believe shall be brought to the attention of the Directors or shareholders.

Attendance

Group Chief Executive Officer and Group Finance Director, Head of Internal Audit and a representative of the external auditors shall be invited to attend the meetings.

(II) Objectives

The objectives of the Committee are to:-

1. provide assistance to the Board of Directors ("Board") in fulfilling the Board's fiduciary responsibilities on financial, accounting, management controls, financial reporting and business ethics practices of the Company, and to ensure that such practices conform to the highest possible standards of corporate governance; and

2. provide greater emphasis on the audit functions by serving as the focal point for communication between other Directors, the external auditors, internal auditors and the management in all matters relating to financial accounting, reporting and controls and providing a forum for discussion that is independent of the management. It is the Board's principal agent in ensuring the independence of the Company's external auditors, the objectivity of the Company's internal auditors, the integrity of management and management policies and the adequacy of disclosures to shareholders.

AUDIT COMMITTEE REPORT
(cont'd)

(III) Functions

Without limiting the generality of this written terms of reference, the Company must ensure the Committee shall, amongst others, discharge the following functions:-

1. Review the following and report the same to the Board of the Company:-

   (a) with the external auditor, the audit plan;

   (b) with the external auditor, his evaluation of the system of internal controls;

   (c) with the external auditor, his audit report;

   (d) the assistance given by employees of the Company to the external auditor;

   (e) the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out his work;

   (f) the internal audit program, processes, the results of the internal audit program, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;

   (g) the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on:-

      (i) changes in or implementation of major accounting policy changes;
      (ii) significant and unusual events; and
      (iii) compliance with accounting standards and other legal requirements;

   (h) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;

   (i) any letter of resignation from the external auditors of the Company;

   (j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment; and

   (k) any allocation of options during the year under the Company's Employees' Share Option Scheme ("ESOS") to ensure compliance in accordance with the Company's ESOS By-Laws.

2. Recommend the nomination of a person or persons as external auditors.

3. Carry out such other responsibilities, functions or assignments as may be assigned by the Board.

4. Where the Committee is of the view that a matter reported by it to the Board of the Company has not been satisfactorily resolved resulting in a breach of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements, the Committee must promptly report such matter to Bursa Securities.

(IV) Audit Committee Report

1. The Company must ensure that its Board prepares an Audit Committee Report at the end of each financial year that complies with (2) and (3) below.

2. The Audit Committee Report must be clearly set out in the Annual Report of the Company.

3. The Audit Committee Report shall include the following:-

   (a) the composition of the Committee, including the name, designation (indicating the Chairman) and the directorship of the members (indicating whether the Directors are independent or otherwise);

   (b) the terms of reference of the Committee;

   (c) the number of Committee meetings held during the financial year and details of attendance of each Committee member;

   (d) a summary of the activities of the Committee in the discharge of its functions and duties for that financial year of the Company; and

   (e) a summary of the activities of the internal audit function or activity.

(V) Rights

The Company must ensure that wherever necessary and reasonable for the performance of its duties, the Committee shall, in accordance with a procedure to be determined by the Board and at the cost of the Company:-

(a) have authority to investigate any matter within its terms of reference;

(b) have the resources which are required to perform its duties;

(c) have full and unrestricted access to any information pertaining to the Company;

(d) have direct communication channels with the internal auditors and person(s) carrying out the internal audit function or activity;

(e) be able to obtain independent professional or other advice; and

(f) be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and management or employees of the Company, whenever deemed necessary.

(VI) Appointment of External Auditors

(a) To review whether there is reason (supported by grounds) to believe that the external auditors are not suitable for re-appointment.

(b) To consider the nomination of a person or persons as external auditors and the audit fees; and

(c) To consider any questions of re-designation or dismissal of external auditors.

(VII) Internal Audit

1. The Company must establish an internal audit function which is independent of the activities it audits.

2. The Company must ensure its internal audit function reports directly to the Committee.

(VIII) Variation

The above Terms of Reference may be determined and/or varied by the Company's Board of Directors at any time and from time to time.

ACTIVITIES DURING THE YEAR

During the financial year under review, the Committee had:-

1. reviewed with the external auditors the audit plan, results of the audit, audit reports and recommendations;

2. reviewed and adopted the internal audit plan for 2016, including its scope and areas of audit;

3. reviewed and deliberated on activities of audits conducted by the Internal Audit Department for the year under review;

4. considered the re-appointment of the external auditors and make recommendation to the shareholders for their approval;

5. reviewed financial statements including quarterly financial announcements to the Bursa Securities and year end financial statements and recommended the same for approval by the Board, upon being satisfied that, *inter alia*, the financial reporting and disclosure requirements of the relevant authorities had been complied with, including deliberation of any significant issues resulting from the audit of the financial statements by the external auditors;

6. reviewed recurrent related party transactions that were entered into by the Group;

7. reviewed significant accounting policies that were affected by the introduction of the new Malaysian Accounting Standards and Financial Reporting Standards; and

8. reviewed with the external auditors on audit strategy and scope for the statutory audit of the Company's financial statements for the financial year ended 31 December 2015.

INTERNAL AUDIT FUNCTIONS

The Group's internal audit function is carried-out by our Internal Audit Department, assisted by an independent external firm of professional internal auditors, which reports directly to the Committee on its activities based on the approved annual Internal Audit Plan. The duties of the Internal Audit Department are to provide reasonable assurance in the effective execution of responsibilities of Committee members by providing verifications, examinations and evaluations of the Group's system of internal controls.

The Head of the Internal Audit Department reports directly to the Committee highlighting major weaknesses in control procedures of auditable areas as set out in the internal audit plan. Where appropriate, relevant corrective and/or preventive actions will also be recommended for implementation in order to further strengthen the existing system of internal controls of the Group. During the year, the Internal Audit Department had carried out *inter alia*, the following activities:-

- reviewed and ascertained adequacy of internal controls through operational and compliance audits;
- reported audit findings of highlighted weaknesses with recommendations to the Committee on a quarterly basis; and
- performed follow-up review for corrective and/or preventive actions of the weaknesses.

The costs amounting to approximately RM487,331 (2014: RM488,916) were incurred for the internal audit functions in respect of the financial year ended 31 December 2015.

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

The Committee has verified and confirmed that during the financial year ended 31 December 2015, there were no new ESOS Options that were allocated to the eligible directors and employees of the Group, save and except for the ESOS Options that were adjusted pursuant to the completion of KNM's Rights Issue Exercise on 27 April 2015 and the said existing allocations (including adjustments thereto) are in accordance with paragraph 8.17 of Bursa Securities' Main Market Listing Requirements and the Company's ESOS By-laws.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

THE BOARD'S RESPONSIBILITY

The Board of Directors ("the Board") of KNM Group ("the Group") is committed to maintaining a sound system of internal controls in the Group and is pleased to provide the following statement on risk management and internal control that outlines the nature and scope of risk management and internal control of the Group during the year.

The Board acknowledges its responsibilities for the Group's system of internal controls and risk management practices to safeguard the shareholders investment and the Group's assets. The Board also believes that the Group's system of internal controls and risk management practices are vital to good corporate governance.

The Board ensures effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations through regular reviews and is guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

RISK MANAGEMENT

The Board has developed a risk management framework and has put in place an Enterprise-Wide Risk Management framework to identify the key risks faced by the Group, the potential impact and likelihood of those risks occurring, the control effectiveness and the action plans being taken to manage those risks to the desired level. Such a system is designed to identify, evaluate and manage the significant risks faced by the Group to achieve its objectives and strategies. A process has been put in place for the year under review and up to the date of this statement. On-going reviews are carried out quarterly by the Risk Management Committee ("RMC"). RMC, chaired by the Group General Counsel, is to assist the facilitation of the continuous monitoring and evaluating of the Group's risk management system and reports to Audit Committee and the Board to achieve the Group's business objective and to ensure that the Group is always vigilant to any situation that might affect its assets, income and profits. The Audit Committee is entrusted by the Board to oversee the overall management of all identified risks of the Group and overall compliance with applicable laws & regulations, internal policies and approved limits.

INTERNAL CONTROL

The key elements of certain operating activities of the Group's system of internal controls are as follows:-

- An organisational structure specifying lines of responsibility and delegation of authority.
- The Financial Authority Limits delineate authorization limits for securing of jobs and services, purchases of goods and/or services and capital expenditure for each level of management to ensure proper identification of accountabilities and segregation of duties.
- Management executive committee meetings involving the Executive Directors, senior management and projects personnel were conducted to discuss the state of affairs and progress for projects and operational businesses.
- The Quality Assurance departments conducted internal quality audits to monitor compliance with ISO requirements at respective subsidiaries with ISO accreditation.
- The Health, Safety and Environment departments at the fabrication facilities carried out health, safety and environment activities to promote staff safety awareness and compliance.
- The Board and Audit Committee reviewed the operational and financial performance at quarterly Board and Audit Committee meetings.

The Internal Audit Function established by the Board, provides independent assurance on the effectiveness of the Group's system of internal controls and the function is centralized at the Group level and it reports to the Audit Committee of the Group on a quarterly basis. However, the Internal Audit Function may report to the Audit Committee on more frequent basis if circumstances arise.

MONITORING AND REVIEW OF THE ADEQUACY AND INTERGRITY OF SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROL

The process adopted to monitor and review the adequacy and integrity of the system of risk management and internal control include:

- Periodic confirmation by the reporting unit heads on the effectiveness of the system of risk management and internal control, highlighting any weaknesses and changes in risk profile.

- Periodic examination of business processes and state of internal control by internal audit function. Reports on the reviews carried out by the internal audit function are submitted on a quarterly basis to the Audit Committee.

The monitoring, review and reporting arrangements in place provide reasonable assurance that the structure of controls and its operations are appropriate to the Group's operations and that risks are at acceptable level throughout the Group's businesses. Such arrangements, however, do not eliminate that possibility of human error, deliberate circumvention of control procedures by employees and others, or the occurrence of unforeseeable circumstances. The Board is of the view that the system of risk management and internal control in place for the year under review is sound and sufficient to safeguard shareholders' investment, stakeholders' interest and the Group's assets.

ASSOCIATES AND JOINT VENTURES

The Group's system of risk management and internal control does not include the state of risk management and internal controls in associates and joint ventures.

ASSURANCE

The Board has received reasonable assurance from the Group Chief Executive Officer and Chief Financial Officer that the Group's risk management framework and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.

The Board is pleased to report that there were no material losses or contingencies during the financial year under review requiring disclosure in the Group's Annual Report 2015 under review as a result from weaknesses in internal control. Management continues to take measures to strengthen the control environment.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the year ended 31 December 2015

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding and provision of management services, while the principal activities of the subsidiaries are as stated in Note 32 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	49,527	6,061
Non-controlling interests	(1,628)	–
	47,899	6,061

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Dato' Ab. Halim bin Mohyiddin
Ir Lee Swee Eng
Dato' Dr Khalid bin Ngah
Dato' Sri Adnan bin Wan Mamat
Soh Yoke Yan
Gan Siew Liat
Chew Fook Sin

DIRECTORS' REPORT
for the year ended 31 December 2015
(cont'd)

DIRECTORS' INTERESTS

The interests and deemed interests in the shares, warrants and options over shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each				
	At 1.1.2015	**Subscribed***	**Bought/ Transferred**	**Sold/ Transferred**	**At 31.12.2015**
Shareholdings in which Directors have interests in the Company					
Direct interests					
Dato' Ab. Halim bin Mohyiddin	2,043,750	408,750	–	–	2,452,500
Ir Lee Swee Eng	22,069,641	5,139,197	3,000,000	–	30,208,838
Gan Siew Liat	7,296,250	1,748,750	–	–	9,045,000
Chew Fook Sin	3,585,950	717,190	–	–	4,303,140
Indirect interests					
Ir Lee Swee Eng	355,078,179	65,166,680	74,745,000	(72,245,000)	422,744,859
Soh Yoke Yan	100,000	20,000	–	–	120,000
Gan Siew Liat	355,078,179	65,166,680	74,745,000	(72,245,000)	422,744,859
Chew Fook Sin	27,431,715	3,886,343	–	(8,000,000)	23,318,058

	Number of Warrant A over the ordinary shares of RM0.50 each				
	At 1.1.2015	**Adjusted^**	**Bought**	**Sold**	**At 31.12.2015**
Warrantholdings A 2012/2017 in which Directors have interests in the Company					
Direct interests					
Dato' Ab. Halim bin Mohyiddin	681,250	40,072	–	–	721,322
Ir Lee Swee Eng	9,643,455	567,261	–	–	10,210,716
Gan Siew Liat	2,098,750	123,455	–	–	2,222,205
Chew Fook Sin	1,528,650	89,920	–	–	1,618,570
Indirect interests					
Ir Lee Swee Eng	121,400,619	7,141,208	–	–	128,541,827
Gan Siew Liat	121,400,619	7,141,208	–	–	128,541,827
Chew Fook Sin	6,477,238	381,013	–	–	6,858,251

DIRECTORS' REPORT
for the year ended 31 December 2015
(cont'd)

DIRECTORS' INTERESTS (CONTINUED)

	Number of Warrant B over the ordinary shares of RM0.50 each				
	At 1.1.2015	Subscribed*	Bought	Sold	At 31.12.2015
Warrantholdings B 2015/2020 in which Directors have interests in the Company					
Direct interests					
Dato' Ab. Halim bin Mohyiddin	–	204,375	–	–	204,375
Ir Lee Swee Eng	–	2,569,598	–	–	2,569,598
Gan Siew Liat	–	874,375	–	–	874,375
Chew Fook Sin	–	358,595	–	–	358,595
Indirect interests					
Ir Lee Swee Eng	–	32,583,340	–	–	32,583,340
Soh Yoke Yan	–	10,000	–	–	10,000
Gan Siew Liat	–	32,583,340	–	–	32,583,340
Chew Fook Sin	–	1,943,172	–	–	1,943,172

	Number of options over ordinary shares of RM0.50 each				
	At 1.1.2015	Adjusted^	Granted	Exercised	At 31.12.2015
Share options in which Directors have interests in the Company					
Direct interests					
Dato' Ab. Halim bin Mohyiddin	485,100	28,535	513,635	–	1,027,270
Ir Lee Swee Eng	2,736,100	160,946	2,897,046	–	5,794,092
Dato' Dr Khalid bin Ngah	360,100	21,182	381,282	–	762,564
Soh Yoke Yan	360,100	21,182	381,282	–	762,564
Gan Siew Liat	2,485,100	146,182	2,631,282	–	5,262,564
Chew Fook Sin	2,485,100	146,182	2,631,282	–	5,262,564
Indirect interests					
Ir Lee Swee Eng	287,600	16,917	304,517	–	609,034
Gan Siew Liat	287,600	16,917	304,517	–	609,034

DIRECTORS' REPORT
for the year ended 31 December 2015
(cont'd)

DIRECTORS' INTERESTS (CONTINUED)

	Number of membership interest of USD1.00 each			
	At 1.1.2015	Bought	Sold	At 31.12.2015
Shareholdings in which a Director has direct interest in a subsidiary				
- KPS Technology & Engineering LLC				
Ir Lee Swee Eng	100,000	–	–	100,000

* Subscription of Rights Shares with free detachable Warrant B 2015/2020
^ Adjustments to Warrant A 2012/2017 or Share Options pursuant to the 2015 Rights Issue Exercise during the year

By virtue of their interests in the Company, Ir Lee Swee Eng, Gan Siew Liat and Chew Fook Sin are also deemed to have interests in the subsidiaries during the financial year to the extent that KNM Group Berhad has an interest.

The other Director holding office at 31 December 2015 had no interests in the ordinary shares, warrants and options over shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salaries of full time employees of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a corporation in which the Director has a substantial financial interest, other than as disclosed in Note 28 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the warrants and the Employee Share Option Scheme ("ESOS") issued by the Company.

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company:

a) issued 323,157,690 new ordinary shares of RM0.50 each via a renounceable rights issue for a total cash consideration of RM161,578,845 ("2015 Rights Issue Exercise");

b) issued 193,893,700 new ordinary shares of RM0.50 each at RM0.50 per ordinary share via a private placement to eligible investors for a total cash consideration of RM96,946,850; and

c) issued 45,600 new ordinary shares of RM0.50 each for cash arising from the exercise of ESOS at an exercise price of RM0.66 per ordinary share.

The ordinary shares issued rank *pari passu* in all respect with the existing shares of the Company.

There were no other changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the additional issuance of warrants and ESOS during the year.

Warrant B 2015/2020 ("Warrant B")

In April 2015, the Company issued 161,578,504 free warrants on the basis of one (1) free Warrant B 2015/2020 ("Warrant B") for every two (2) Rights shares subscribed for in the 2015 Rights Issue Exercise. As a result, an additional 28,754,970 Warrant A 2012/2017 ("Warrant A") were issued following the adjustments made to the outstanding Warrant A. The exercise price of Warrant A was also adjusted from RM1.00 to RM0.98 pursuant to 2015 Rights Issue Exercise. The Warrant A and Warrant B are constituted by a Deed Poll dated 4 October 2012 and 13 March 2015 respectively. The warrants were listed on Bursa Malaysia Securities Berhad on 27 April 2015.

The main features of the Warrant B are as follows:

i) Each Warrant B will entitle its registered holder during the exercise period to subscribe for one (1) new ordinary share at the exercise price, which has been fixed at RM1.00 per share subject to adjustments in accordance with the provisions of the Deed Poll dated 13 March 2015 constituting the Warrant B; and

ii) The tenure of Warrant B is for a period of five (5) years and may be exercised at any time on or before 21 April 2020. Warrant B not exercised during the exercise period shall thereafter lapse and cease to be valid for any purpose.

Employee Share Option Scheme ("ESOS")

At an Extraordinary General Meeting held on 18 April 2014, the Company's shareholders approved the establishment of an ESOS not exceeding 15% of the issued and paid-up share capital of the Company (excluding treasury shares) at any time during the existence of the ESOS, to the eligible Directors and employees of the Group and the Company.

The salient features of the ESOS are as follows:

i) Subject to the discretion of the ESOS Committee, any employee of at least eighteen (18) years of age on the date of offer, shall be eligible to participate.

ii) The option is personal to the grantee and is non-assignable, non-transferable and non-disposable.

iii) The option price shall be determined by the weighted average of the market price of the shares as shown in the daily official list issued by Bursa Malaysia Securities Berhad for the five (5) Market Days immediately preceding the dates of offer subject to a discount of not more than ten percent (10%) thereto to be decided by the ESOS committee or at the par value of the share, whichever is higher.

iv) The options shall not carry any right to vote at any general meeting of the Company and the grantee shall not be entitled to any dividends, rights, allotments and or other distributions on his/her unexercised options.

v) The options granted may be exercised in respect of such lesser number of new shares as the grantee may decide provided that the number shall be in multiples of and not less than one hundred (100) new shares.

vi) The new shares to be allotted and issued upon any exercise of the options will upon such allotment and issuance, rank *pari passu* in all respect with the then existing issued and fully paid-up shares.

OPTIONS GRANTED OVER UNISSUED SHARES (CONTINUED)

Employee Share Option Scheme ("ESOS") (continued)

The options offered to take up unissued ordinary shares of RM0.50 each and the option prices are as follows:

Grant date	Exercise price RM	Number of options over ordinary shares of RM0.50 each					
		At 1.1.2015	Adjusted^	Granted	Exercised	Lapsed	At 31.12.2015
25.07.2014	0.66	-	-	26,846,000	(2,348,000)	(234,000)	24,264,000
25.07.2015	0.65#	24,264,000	1,439,000	24,956,000	(46,000)	(1,146,000)	49,467,000

In the year of establishment, the Company was granted exemption pursuant to Section 169A(1) of the Companies Act, 1965 by the Companies Commission of Malaysia from having to disclose the names of option holders (other than Directors) who have been granted options of not more than 762,564 ordinary shares of RM0.50 each per annum under the scheme.

The option holders who have been granted options of more than 762,564 ordinary shares of RM0.50 each are as follows:

Name	Number of options over ordinary shares of RM0.50 each				
	At 1.1.2015	Adjusted^	Granted	Exercised	At 31.12.2015
Tan Koon Ping	1,510,100	88,829	1,598,929	–	3,197,858
Felix Wong Yeen Kee	1,260,100	74,123	1,334,223	–	2,668,446
Michael Fix	500,100	29,417	529,517	–	1,059,034

^ Adjustments to Share Options pursuant to the 2015 Rights Issue Exercise during the year
# Adjustments to exercise price pursuant to the 2015 Rights Issue Exercise during the year

SHARE BUY-BACK

On 24 June 2015, the shareholders of the Company renewed the Company's plan to repurchase its own shares as disclosed in Note 15 to the financial statements.

During the financial year, the Company purchased 20,000 of its issued ordinary shares of RM0.50 each, listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM0.58 per share. The total consideration paid was RM11,596 including transaction costs of RM96. The purchase transactions were financed by internally generated funds. The shares purchased are retained as treasury shares. None of the treasury shares held were resold or cancelled during the financial year.

As at 31 December 2015, the Company held 23,311,275 ordinary shares of RM0.50 each as treasury shares out of its total issued and paid-up share capital. Hence, the number of outstanding shares in issue and paid-up after deducting treasury shares as at 31 December 2015 is 2,132,821,367 ordinary shares of RM0.50 each. The treasury shares have no rights to voting, dividends or participation in other distribution.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except for the gain on disposal of subsidiaries and net foreign exchange gain as disclosed in Note 23 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

DIRECTORS' REPORT
for the year ended 31 December 2015
(cont'd)

SIGNIFICANT EVENTS DURING THE YEAR

The significant events during the year are as disclosed in Note 34 to the financial statements.

EVENTS SUBSEQUENT TO YEAR END

The significant subsequent events are as disclosed in Note 35 to the financial statements.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

…………………………………………………………
Dato' Ab. Halim bin Mohyiddin

…………………………………………………………
Lee Swee Eng

Kuala Lumpur,

6 April 2016

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2015

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Assets					
Property, plant and equipment	3	1,049,612	852,899	–	–
Goodwill	4	857,340	772,885	–	–
Other intangible assets	4	539,609	519,036	–	–
Interests in subsidiaries	5	–	–	1,718,941	1,717,147
Investments in associates	6	23	24	–	–
Investments in joint ventures	7	1,315	5,383	40	40
Other investments	8	10,522	14,705	–	–
Deferred tax assets	9	345,428	342,031	–	–
Total non-current assets		2,803,849	2,506,963	1,718,981	1,717,187
Inventories	10	74,675	70,433	-	-
Current tax assets		39,162	40,326	-	-
Trade and other receivables	11	1,184,376	1,077,250	209,768	434,313
Derivative financial assets	12	6,218	5,928	-	-
Cash and bank balances	13	198,857	208,508	269	150
		1,503,288	1,402,445	210,037	434,463
Assets classified as held for sale	14	–	21,155	–	–
Total current assets		1,503,288	1,423,600	210,037	434,463
Total assets		4,307,137	3,930,563	1,929,018	2,151,650
Equity					
Share capital		1,005,617	774,537	1,005,617	774,537
Share premium		782,971	790,135	782,971	790,135
Treasury shares		(53,414)	(53,402)	(53,414)	(53,402)
Reserves		983,620	650,776	150,063	110,976
Total equity attributable to owners of the Company	15	2,718,794	2,162,046	1,885,237	1,622,246
Non-controlling interests		(9,099)	(4,285)	–	–
Total equity		2,709,695	2,157,761	1,885,237	1,622,246

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2015
(cont'd)

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Liabilities					
Loans and borrowings	16	336,431	218,099	–	–
Long term payables	18	47,775	52,142	37,439	525,296
Long service leave liability		6,348	2,886	–	–
Deferred tax liabilities	9	218,595	219,222	–	–
Total non-current liabilities		609,149	492,349	37,439	525,296
Loans and borrowings	16	382,029	577,194	–	–
Current tax liabilities		1,278	1,100	597	497
Deferred income	19	155,307	155,746	–	–
Trade and other payables	20	426,506	482,961	5,745	3,611
Derivative financial liabilities	12	23,173	17,128	–	–
		988,293	1,234,129	6,342	4,108
Liabilities classified as held for sale	14	–	46,324	–	–
Total current liabilities		988,293	1,280,453	6,342	4,108
Total liabilities		1,597,442	1,772,802	43,781	529,404
Total equity and liabilities		4,307,137	3,930,563	1,929,018	2,151,650

The notes on pages 58 to 142 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Revenue					
Contract revenue		1,641,282	1,865,131	–	–
Management fees		–	–	6,360	4,703
		1,641,282	1,865,131	6,360	4,703
Cost of sales					
Contract costs recognised as an expense		(1,301,441)	(1,446,400)	–	–
Gross profit		339,841	418,731	6,360	4,703
Administration expenses		(218,797)	(227,436)	(8,892)	(8,838)
Other income		123,542	81,442	29	36
Other operating expenses		(78,843)	(104,857)	(235)	(116)
Results from operating activities		165,743	167,880	(2,738)	(4,215)
Finance costs	21	(36,636)	(53,092)	(862)	(2)
Finance income		1,371	2,996	11,337	7,362
Share of (loss)/profit of equity-accounted associates and joint ventures, net of tax		(6,343)	465	–	–
Profit before tax		124,135	118,249	7,737	3,145
Tax expense	22	(76,236)	(78,497)	(1,676)	(1,686)
Profit for the year	23	47,899	39,752	6,061	1,459
Items that are or may be reclassified subsequently to profit or loss					
Cash flow hedge		733	(5,399)	–	–
Foreign currency translation differences for foreign operations		361,872	(22,294)	–	–
Hedge of net investment in subsidiaries		(116,535)	(93,605)	–	–
Revaluation of property, plant and equipment		–	64,335	–	–
Share of gain of equity-accounted associates/joint ventures		1,335	119	–	–
Other comprehensive income/(expense) for the year, net of tax		247,405	(56,844)	–	–
Total comprehensive income/(expense) for the year		295,304	(17,092)	6,061	1,459

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2015
(cont'd)

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Profit attributable to:					
Owners of the Company		49,527	42,187	6,061	1,459
Non-controlling interests		(1,628)	(2,435)	–	–
Profit for the year		47,899	39,752	6,061	1,459
Total comprehensive income/ (expense) attributable to:					
Owners of the Company		299,818	(12,663)	6,061	1,459
Non-controlling interests		(4,514)	(4,429)	–	–
Total comprehensive income/ (expense) for the year		295,304	(17,092)	6,061	1,459
Basic and diluted earnings per ordinary share (sen)	24	2.65	2.72		

The notes on pages 58 to 142 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

Group	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Share option reserve RM'000	Hedging reserve RM'000	Warrant reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling Interests RM'000	Total equity RM'000
	← Attributable to owners of the Company →											
	← Non-distributable							→	Distributable			
At 1 January 2014	1,445,033	16,707	(53,390)	35,609	(343,480)	–	323	44,981	913,972	2,059,755	(156)	2,059,599
Foreign currency translation differences for foreign operations	–	–	–	–	(20,300)	–	–	–	–	(20,300)	(1,994)	(22,294)
Hedge of net investment	–	–	–	–	(93,605)	–	–	–	–	(93,605)	–	(93,605)
Cash flow hedge	–	–	–	–	–	–	(5,399)	–	–	(5,399)	–	(5,399)
Revaluation of property, plant and equipment	–	–	–	64,335	–	–	–	–	–	64,335	–	64,335
Realisation of revaluation reserve on disposal of property, plant and equipment	–	–	–	(955)	–	–	–	–	955	–	–	–
Share of other comprehensive income of equity accounted investees	–	–	–	–	119	–	–	–	–	119	–	119
Other comprehensive income for the year	–	–	–	63,380	(113,786)	–	(5,399)	–	955	(54,850)	(1,994)	(56,844)
Profit for the year	–	–	–	–	–	–	–	–	42,187	42,187	(2,435)	39,752
Total comprehensive income for the year	–	–	–	63,380	(113,786)	–	(5,399)	–	43,142	(12,663)	(4,429)	(17,092)
Contributions by and distributions to owners of the Company												
- Share buy-back	–	–	(12)	–	–	–	–	–	–	(12)	–	(12)
- Par value reduction	(745,007)	745,007	–	–	–	–	–	–	–	–	–	–
- Issuance arising from Private Placement	73,337	29,335	–	–	–	–	–	–	–	102,672	–	102,672
- Share options exercised	1,174	376	–	–	–	–	–	–	–	1,550	–	1,550
- Share based payment	–	–	–	–	–	12,903	–	–	–	12,903	–	12,903
- Share issue expenses	–	(2,159)	–	–	–	–	–	–	–	(2,159)	–	(2,159)
Total transactions with owners of the Company	(670,496)	772,559	(12)	–	–	12,903	–	–	–	114,954	–	114,954
- Transfer to share premium for ESOS exercised	–	869	–	–	–	(869)	–	–	–	–	–	–
- Change in ownership interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	300	300
At 31 December 2014	774,537	790,135	(53,402)	98,989	(457,266)	12,034	(5,076)	44,981	957,114	2,162,046	(4,285)	2,157,761
	Note 15.1		Note 15.2	Note 15.3	Note 15.4	Note 15.5	Note 15.6	Note 15.7				

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015
(cont'd)

Group	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Share option reserve RM'000	Hedging reserve RM'000	Warrant reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling Interests RM'000	Total equity RM'000
	Attributable to owners of the Company											
	Non-distributable								*Distributable*			
At 1 January 2015	774,537	790,135	(53,402)	98,989	(457,266)	12,034	(5,076)	44,981	957,114	2,162,046	(4,285)	2,157,761
Foreign currency translation differences for foreign operations	–	–	–	–	364,758	–	–	–	–	364,758	(2,886)	361,872
Hedge of net investment	–	–	–	–	(116,535)	–	–	–	–	(116,535)	–	(116,535)
Cash flow hedge	–	–	–	–	–	–	733	–	–	733	–	733
Share of other comprehensive income of equity accounted investees	–	–	–	–	1,335	–	–	–	–	1,335	–	1,335
Other comprehensive income for the year	–	–	–	–	249,558	–	733	–	–	250,291	(2,886)	247,405
Profit for the year	–	–	–	–	–	–	–	–	49,527	49,527	(1,628)	47,899
Total comprehensive income for the year	–	–	–	–	249,558	–	733	–	49,527	299,818	(4,514)	295,304
Contributions by and distributions to owners of the Company												
- Share buy-back	–	–	(12)	–	–	–	–	–	–	(12)	–	(12)
- Issuance of ordinary shares pursuant to Rights Issue	161,579	–	–	–	–	–	–	–	–	161,579	–	161,579
- Allocation of warrants reserve	(27,468)	–	–	–	–	–	–	27,468	–	–	–	–
- Issuance arising from Private Placement	96,947	–	–	–	–	–	–	–	–	96,947	–	96,947
- Share options exercised	22	7	–	–	–	–	–	–	–	29	–	29
- Share based payment	–	–	–	–	–	5,575	–	–	–	5,575	–	5,575
- Share issue expenses	–	(7,188)	–	–	–	–	–	–	–	(7,188)	–	(7,188)
Total transactions with owners of the Company	231,080	(7,181)	(12)	–	–	5,575	–	27,468	–	256,930	–	256,930
- Transfer to share premium for ESOS exercised	–	17	–	–	–	(17)	–	–	–	–	–	–
- Change in ownership interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(300)	(300)
At 31 December 2015	1,005,617	782,971	(53,414)	98,989	(207,708)	17,592	(4,343)	72,449	1,006,641	2,718,794	(9,099)	2,709,695
	Note 15.1		Note 15.2	Note 15.3	Note 15.4	Note 15.5	Note 15.6	Note 15.7				

The notes on pages 58 to 142 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

Company	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Share option reserve RM'000	Warrant reserve RM'000	Retained earnings RM'000	Total RM'000
	← Attributable to owners of the Company →						
	← Non-distributable →					*Distributable*	
At 1 January 2014	1,445,033	16,707	(53,390)	–	44,981	52,502	1,505,833
Profit for the year/ Total comprehensive income for the year	–	–	–	–	–	1,459	1,459
Contributions by and distributions to owners of the Company							
- Share buy-back	–	–	(12)	–	–	–	(12)
- Par value reduction	(745,007)	745,007	–	–	–	–	–
- Issuance arising from Private Placement	73,337	29,335	–	–	–	–	102,672
- Share options exercised	1,174	376	–	–	–	–	1,550
- Share based payment	–	–	–	12,903	–	–	12,903
- Share issue expenses	–	(2,159)	–	–	–	–	(2,159)
Total transactions with owners of the Company	(670,496)	772,559	(12)	12,903	–	–	114,954
- Transfer to share premium for ESOS exercised	–	869	–	(869)	–	–	–
At 31 December 2014/ 1 January 2015	774,537	790,135	(53,402)	12,034	44,981	53,961	1,622,246
Profit for the year/ Total comprehensive income for the year	–	–	–	–	–	6,061	6,061
Contributions by and distributions to owners of the Company							
- Share buy-back	–	–	(12)	–	–	–	(12)
- Issuance arising from Rights Issue	161,579	–	–	–	–	–	161,579
- Issuance arising from Private Placement	96,947	–	–	–	–	–	96,947
- Share options exercised	22	7	–	–	–	–	29
- Allocation of fair value of warrants	(27,468)	–	–	-	27,468	–	–
- Share based payment	–	–	–	5,575	–	–	5,575
- Share issue expenses	–	(7,188)	–	–	–	–	(7,188)
Total transactions with owners of the Company	231,080	(7,181)	(12)	5,575	27,468	–	256,930
- Transfer to share premium for ESOS exercised	–	17	–	(17)	–	–	–
At 31 December 2015	1,005,617	782,971	(53,414)	17,592	72,449	60,022	1,885,237
	Note 15.1		Note 15.2		Note 15.7		

The notes on pages 58 to 142 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2015

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Cash flows from operating activities					
Profit before tax		124,135	118,249	7,737	3,145
Adjustments for:					
Amortisation of intangible assets		35,102	35,597	–	–
Change in fair value of forward contract		5,162	9,724	–	–
Depreciation of property, plant and equipment		8,700	9,813	–	–
(Gain)/Loss on disposal of:					
- Joint venture		–	(709)	–	–
- Property, plant and equipment		–	(3,177)	–	–
- Other investments		257	(2,437)	–	–
- Subsidiaries		(19,880)	–	–	–
(Gain)/Loss on foreign exchange					
- unrealised		(97,556)	(58,224)	187	–
Interest expense		30,493	48,759	859	–
Interest income		(1,371)	(2,996)	(11,337)	(7,362)
Property, plant and equipment written off		–	425	–	–
Bad debts written off		1,320	–	–	–
Provision for foreseeable losses		55	549	–	–
Provision for late delivery charges		–	1,167	–	–
Provision for warranty		9,252	–	–	–
Impairment/(Reversal of impairment):					
- goodwill		–	6,672	–	–
- other investments		3,987	(153)	–	–
- property, plant and equipment		–	(2,179)	–	–
- receivables		2,158	–	28	–
Share-based payments	17	5,575	12,902	2,309	3,283
Share of loss/(gain) of equity-accounted associates/joint venture, net of tax		6,343	(465)	–	–
Operating profit/(loss) before changes in working capital		113,732	173,517	(217)	(934)
Changes in working capital:					
Inventories		5,917	1,240	–	–
Trade and other receivables		28,983	(54,306)	(2,588)	1,727
Trade and other payables		(115,469)	(45,584)	(690)	(117)
Cash generated from operations		33,163	74,867	(3,495)	676
Tax paid		(19,135)	(52,164)	(1,576)	(1,701)
Interest paid		(560)	(840)	–	–
Interest received		1,371	2,996	11,337	7,362
Net cash generated from operating activities		14,839	24,859	6,266	6,337

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2015
(cont'd)

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Cash flows from investing activities					
Acquisition of other intangible assets		(1,973)	(902)	–	–
Acquisition of property, plant and equipment	(ii)	(50,431)	(13,568)	–	–
Acquisition of subsidiary, net of cash acquired		–	–	(1,794)	–
Government grants received		6,364	–	–	–
Change in pledged deposits		12,849	(10,295)	–	–
Disposal of subsidiaries, net of cash		(4,834)	–	–	–
Proceeds from disposal of					
- joint ventures		–	2,092	–	–
- other investments		176	6,325	–	–
- property, plant and equipment		–	13,473	–	–
Proceeds from issuance of shares to non-controlling interests		–	300	–	–
Repayments to subsidiary		–	–	(254,849)	(134,855)
Net cash used in investing activities		(37,849)	(2,575)	(256,643)	(134,855)
Cash flows from financing activities					
Interest paid		(29,933)	(47,919)	(859)	–
Net repayments of					
- bills payable		(25,948)	(77,778)	–	–
- finance lease liabilities		(6,860)	(14,320)	–	–
Net repayments of term loans and revolving credit		(52,205)	(59,134)	–	–
Proceeds from issuance of shares		258,555	104,222	258,555	104,222
Share buy-back		(12)	(12)	(12)	(12)
Share issue expenses		(7,188)	(2,159)	(7,188)	(2,159)
Net cash generated from/(used in) financing activities		136,409	(97,100)	250,496	102,051
Net increase/(decrease) in cash and cash equivalents		113,399	(74,816)	119	(26,467)
Effect of foreign currency translation		(113,183)	11,911	–	–
Cash and cash equivalents beginning of year		193,668	256,573	150	26,617
Cash and cash equivalents end of year	(i)	193,884	193,668	269	150

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2015
(cont'd)

Notes to statements of cash flows:

(i) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

		Group		Company	
	Note	**2015 RM'000**	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Cash and bank balances	13	193,685	185,068	269	150
Deposits with licensed banks and financial institutions	13	5,172	23,440	–	–
Assets classified as held for sale	14	–	4,834	–	–
Less: Pledged deposits	13	(2,460)	(15,309)	–	–
		196,397	198,033	269	150
Less: Bank overdrafts	16	(2,513)	(4,365)	–	–
		193,884	193,668	269	150

(ii) Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM142,649,000 (2014: RM18,718,000) after deducting government grant received of RM6,364,000 (2014: Nil). Property, plant and equipment of RM10,032,000 (2014: RM5,150,000) was acquired by means of hire purchase and RM88,550,000 (2014: Nil) was self-constructed assets.

The notes on pages 58 to 142 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

KNM Group Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office is as follows:

Registered office and principal place of business
15, Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interests in associates and joint ventures. The financial statements of the Company as at and for the year ended 31 December 2015 do not include other entities.

The Company is principally engaged in investment holding activities and provision of management services, while the principal activities of the other Group entities are as stated in Note 32 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 6 April 2016.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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 and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments* (2014)
- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for a date yet to be determined

- 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 Associates or Joint Venture*

The Group and Company plan to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for MFRS 14, amendments to MFRS 5 and MFRS 141 which are not applicable to the Group and the Company.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

The initial application of the abovementioned accounting standards, amendments or interpretations 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:

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MRFS 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*. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition might be different as compared with the current practices.

The adoption of MFRS 15 will result in a change in accounting policy. The Group is currently assessing the financial impact of adopting MFRS 15.

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. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost. It is expected that the Group's investment in unquoted shares will be measured at fair value through other comprehensive income.

The adoption of MFRS 9 will result in a change in accounting policy. The Group is currently assessing the financial impact of adopting MFRS 9.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in the Note 2.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- *Note 3* - *Revaluation of property and depreciation of plant and machinery*

  The Group revalues its freehold land, leasehold land and buildings every 5 years. The freehold land, leasehold land and buildings are stated at Directors' valuation based on professional valuation on the open market basis conducted in December 2014.

- *Note 4* - *Measurement of the recoverable amounts of the cash-generating units*

  The Group assesses goodwill and other intangible assets for impairment annually. The recoverable amounts of the cash-generating units ("CGUs") were determined based on value in use calculations. The calculation requires the use of estimates and assumptions as set out in Note 4 to the financial statements, which resulted in no impairment.

  The Directors are of the opinion that any reasonably expected change in key assumptions used to determine the recoverable amounts of the CGUs, would not result in any further impairment.

- *Note 8* - *Impairment of other investment*

  The Directors are of the opinion that based on the projection of income and future cashflows of the other investment, the recoverable amount of the investment would not result in any impairment.

- *Note 9* - *Recognition of unutilised tax losses and unabsorbed capital allowances*

  A subsidiary has recognised deferred tax assets amounting to RM335,706,000. The Directors are of the opinion that based on projection of future taxable income in that subsidiary, it is probable that future taxable profits will be available that the related tax benefit will be utilised.

1. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements (continued)

- *Note 11.1 - Construction work-in-progress*

  (i) *Construction contracts revenue*

  The Group has estimated contracts revenue based on the initial amount of revenue agreed in the contract and approved variations in the contract work. During the financial year, variation orders were recognised based on percentage of completion for related costs in respect of additional work scope instruction by the customer.

  (ii) *Construction contracts profits*

  The Group recognises contracts profits based on the percentage of completion method. The percentage of completion of a construction contract is determined based on surveys of work performed / completion of a physical proportion of contract work. Judgment is required in the estimation of physical proportion of contract work. Where actual differs from the estimated physical proportion, such difference will impact the contract profits recognised.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of non-controlling interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(v) Associates (continued)

When the Group's share of losses exceeds its interest in an associates, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associates.

When the Group ceases to have significant influence over an associates, any retained interest in the former associates at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associates decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(vi) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of their share of the assets, liabilities and transactions, including their share of those held or incurred jointly with the other investors, in relation to the joint operation.

- A joint arrangement is classified as "joint venture" when the Group or the Company has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method. Investments in joint venture are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(vii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(viii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the respective functional currencies of Group entities at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency (continued)

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associates or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination or financial assets that are specifically designated into this category upon initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(a) Financial assets at fair value through profit or loss (continued)

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (See note 2(l)(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination or financial liabilities that are specifically designated into this category upon initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities (continued)

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair value arising from financial guarantee contracts are classified as deferred income and is amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(v) Hedge accounting

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(v) Hedge accounting (continued)

Cash flow hedge (continued)

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

Hedge of a net investment

A hedge of a net investment is a hedge in the interest of the net assets of a foreign operation. In a net investment hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. The cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss on disposal of the foreign operation.

(vi) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the assets is not retained or substantially all of the risks and rewards of ownership of the financial assets are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

Freehold land and capital work-in-progress are stated at cost or valuation less any accumulated impairment losses. All other items of property, plant and equipment are measured at cost or valuation less any accumulated depreciation and any accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

The Group revalues its freehold land, leasehold land and buildings every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value. Additions subsequent to their revaluation are stated in the financial statements at cost until the next revaluation exercise.

Freehold land, leasehold land and buildings are stated at Directors' valuation based on professional valuations on the open market basis conducted in December 2014. The next valuation is expected to be in 2019.

Surpluses arising from revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged into the profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other operating expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction (capital work-in-progress) are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	45 - 66 years
Buildings	20 - 60 years
Building improvements	5 - 15 years
Plant and machineries	4 - 20 years
Motor vehicles	3 - 10 years
Furniture, fittings and equipment	2.5 - 10 years

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period, and adjusted as appropriate.

(iv) Government grant

Government grant which were granted as a financial grant for an investment, are recognised as acquisition cost of reduction.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(ii) Operating lease (continued)

Payments made under operating leases are recognised in profit or loss on straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(f) Intangible assets

(i) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates and joint ventures.

(ii) Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group, which have finite and indefinite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The fair value of technology and marketing related intangible assets acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the intangible assets being owned. The fair value of customer related intangible assets acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject assets is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current and comparative periods are as follows:

• Technology related intangible asset	5 - 15 years
• Customer and marketing related intangible asset	1 - 20 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (continued)

(v) Government grant

Government grant which were granted as a financial grant for an investment, are recognised as acquisition cost of reduction.

(g) Other investments

Other investments are stated as cost less impairment loss, if any, in accordance to Note 2(c).

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is determined on a first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Non-current asset held for sale or distribution to owners

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution to owners rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted associates and joint ventures ceases once classified as held for sale or distribution.

(j) Constructions work-in-progress

Constructions work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Constructions work-in-progress (continued)

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers which is part of the deferred income in the statement of financial position.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks, financial institutions and highly liquid investments which have an insignificant risk of change in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(l) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and investment in associates and joint ventures) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment (continued)

(ii) Other assets

The carrying amounts of other assets (except for inventories, amount due from contract customers, deferred tax assets and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(m) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Equity instruments (continued)

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statement of changes in equity.

Where treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(iv) Warrant reserves

The proceeds from the Rights Issue with Warrants is allocated to both Rights Share and Warrants using a reasonable and appropriate method of allocation.

The Warrants issued are recognised in the statements of financial position as "Warrant Reserve" at fair value as at the date of issuance and credited to "Warrant Reserve" account which is non-distributable. The "Warrant Reserve" will be transferred to "Share Capital" account upon the exercise of Warrants. The "Warrant Reserve" in relation to the unexercised Warrants will be transferred to "Share Capital" account upon expiry of the exercise period of the Warrants.

(n) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plan

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

(iii) Long service leave

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The long-term employee benefits have been measured at the present value of the future cash outflows to be made for those benefits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (continued)

(iv) Share-based payment transactions

The grant date fair value of share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the employee share options is measured using the Trinomial Option Pricing Model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Revenue and other income

(i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed/completion of a physical proportion of contract work.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue and other income (continued)

(ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Management fee

Management fee is recognised on an accrual basis.

(iv) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period. The stage of completion is assessed by reference to surveys of work performed.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(q) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(r) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentive that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

(s) Earnings per ordinary share

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise warrants issued by the Company and share options granted to employees.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Contingencies

(i) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(ii) Contingent assets

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

(v) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

3. PROPERTY, PLANT AND EQUIPMENT

Group	Note	Land RM'000	Buildings RM'000	Building improvements RM'000	Plant and machineries RM'000	Motor vehicles RM'000	Furniture, fittings and equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/Valuation									
At 1 January 2014		202,674	431,942	7,295	547,168	13,437	91,386	3,147	1,297,049
Additions		336	341	7	9,152	1,267	6,266	1,349	18,718
Transfer to assets classified as held for sale	14.1	–	(4,767)	–	(23,899)	(674)	(2,721)	(132)	(32,193)
Disposals		(1,931)	(8,170)	–	(108)	(70)	(452)	–	(10,731)
Revaluations		20,170	(18,325)	(2,565)	–	–	–	–	(720)
Reclassification		–	1,348	–	(136)	–	1,832	(3,044)	–
Write offs		–	–	(518)	(11)	–	(469)	–	(998)
Effect of movements in exchange rates		1,071	(87)	(376)	(13,230)	(359)	(4,525)	(313)	(17,819)
At 31 December 2014/ 1 January 2015		222,320	402,282	3,843	518,936	13,601	91,317	1,007	1,253,306
Additions		–	9,669	1,086	16,739	36	4,347	110,772	142,649
Disposals		–	–	–	–	(55)	–	–	(55)
Reclassification		–	–	–	(2,705)	–	–	2,705	–
Write offs		–	–	–	(1,106)	–	(1,650)	–	(2,756)
Effect of movements in exchange rates		30,130	61,394	284	77,080	2,190	12,481	2,297	185,856
At 31 December 2015		252,450	473,345	5,213	608,944	15,772	106,495	116,781	1,579,000

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

	Note	Land RM'000	Buildings RM'000	Building improvements RM'000	Plant and machineries RM'000	Motor vehicles RM'000	Furniture, fittings and equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation and impairment loss									
At 1 January 2014									
Accumulated depreciation		1,315	68,052	3,252	309,254	10,242	61,650	–	453,765
Accumulated impairment loss		4,353	2,179	–	1,958	–	–	–	8,490
		5,668	70,231	3,252	311,212	10,242	61,650	–	462,255
Depreciation for the year		998	14,861	482	38,532	928	10,150	–	65,951
Transfer to assets classified as held for sale	14.1	–	(3,872)	–	(19,305)	(675)	(2,294)	–	(26,146)
Revaluations		(2,259)	(78,400)	(3,003)	–	–	–	–	(83,662)
Impairment loss		–	1,139	–	–	–	–	–	1,139
Reversal of impairment		–	(3,318)	–	–	–	–	–	(3,318)
Disposals		(100)	(694)	–	(75)	(70)	(452)	–	(1,391)
Write offs		–	–	(518)	(11)	–	(44)	–	(573)
Effect of movements in exchange rates		46	53	(186)	(9,614)	(279)	(3,868)	–	(13,848)
At 31 December 2014/ 1 January 2015									
Accumulated depreciation		–	–	27	318,781	10,146	65,142	–	394,096
Accumulated impairment loss		4,353	–	–	1,958	–	–	–	6,311
		4,353	–	27	320,739	10,146	65,142	–	400,407
Depreciation for the year		400	14,507	378	37,805	968	8,241	–	62,299
Disposals		–	–	–	–	(55)	–	–	(55)
Write offs		–	–	–	(1,106)	–	(1,650)	–	(2,756)
Effect of movements in exchange rates		146	3,513	27	54,595	1,753	9,459	–	69,493
At 31 December 2015									
Accumulated depreciation		546	18,020	432	410,075	12,812	81,192	–	523,077
Accumulated impairment loss		4,353	–	–	1,958	–	–	–	6,311
		4,899	18,020	432	412,033	12,812	81,192	–	529,388
Carrying amounts									
At 1 January 2014		197,006	361,711	4,043	235,956	3,195	29,736	3,147	834,794
At 31 December 2014/ 1 January 2015		217,967	402,282	3,816	198,197	3,455	26,175	1,007	852,899
At 31 December 2015		247,551	455,325	4,781	196,911	2,960	25,303	116,781	1,049,612

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.1 Depreciation charge for the year is allocated as follows:

	Note	Group 2015 RM'000	Group 2014 RM'000
Construction work-in-progress	11.1	53,599	56,138
Profit or loss	23	8,700	9,813
		62,299	65,951

3.2 Revaluation

Freehold land, leasehold land and buildings are stated at Directors' valuation based on professional valuations on the open market basis conducted in December 2014 by chartered surveyors in W.M. Malik & Kamaruzaman, Jiangsu Zhongda Real Estate Appraisal & Consultation Co., Ltd., PT Duta Perkasa Propertindo, Cluttons LLC, Suncorp Valuations Ltd., Gabetti Property Solutions Franchising Agency and PWC AG WPG.

Had the freehold land, leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, the carrying amount of the freehold land, leasehold land and buildings that would have been included in the financial statements at the end of the year would be as follows:

	Group 2015 RM'000	Group 2014 RM'000
Freehold land	177,783	152,509
Leasehold land	34,199	31,386
Buildings	390,042	330,842
	602,024	514,737

3.3 Security

Certain freehold land and buildings of the Group costing/valued at RM352,135,000 (2014: RM295,755,000) in subsidiaries are charged to certain licensed banks as security for credit facilities granted to the subsidiaries (Note 16).

3.4 Land

Included in the carrying amount of land is:

	Group 2015 RM'000	Group 2014 RM'000
Leasehold land		
- Unexpired period less than 50 years	29,707	25,961
- Unexpired period more than 50 years	15,353	14,790
Freehold land	202,491	177,216
	247,551	217,967

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.5 Assets acquired under finance lease

The carrying amounts of property, plant and equipment acquired under finance lease purchase agreements are as follows:

	Group	
	2015	**2014**
	RM'000	**RM'000**
Freehold land	5,305	4,782
Building	12,154	4,454
Plant and machineries	37,231	41,108
Motor vehicles	1,100	1,265
	55,790	51,609

3.6 Capital work-in-progress

Included in carrying amounts of capital work-in-progress are costs of self-constructed assets of RM88,550,000 (2014: Nil).

3.7 Impairment

During the financial year under review, there is no impairment loss incurred, as the management has not identified any impairment indication, in accordance with Note 2(l). No reversals of impairment were recognised, as the management has not identified any indications that the impairment loss had decreased or no longer exists.

In prior year, net reversal of impairment of property, plant and equipment amounting to RM2,179,000 was made upon revaluation conducted as disclosed in Note 3.2.

4. INTANGIBLE ASSETS

Group	**Goodwill RM'000**	**Other intangible assets RM'000**	**Total RM'000**
Cost			
At 1 January 2014	832,842	819,438	1,652,280
Additions	–	902	902
Effect of movements in exchange rates	(50,491)	(50,249)	(100,740)
At 31 December 2014/1 January 2015	782,351	770,091	1,552,442
Additions	–	1,973	1,973
Disposal of subsidiaries	(6,672)	–	(6,672)
Effect of movements in exchange rates	84,455	84,150	168,605
At 31 December 2015	860,134	856,214	1,716,348

4. INTANGIBLE ASSETS (CONTINUED)

Group	Goodwill RM'000	Other intangible assets RM'000	Total RM'000
Amortisation and impairment loss			
At 1 January 2014			
Accumulated amortisation	–	(230,537)	(230,537)
Accumulated impairment loss	(2,794)	–	(2,794)
	(2,794)	(230,537)	(233,331)
Amortisation for the year	–	(35,597)	(35,597)
Impairment	(6,672)	–	(6,672)
Effect of movements in exchange rates	–	15,079	15,079
At 31 December 2014/1 January 2015			
Accumulated amortisation	–	(251,055)	(251,055)
Accumulated impairment loss	(9,466)	–	(9,466)
	(9,466)	(251,055)	(260,521)
Amortisation for the year	–	(35,102)	(35,102)
Disposal of subsidiaries	6,672	–	6,672
Effect of movements in exchange rates	–	(30,448)	(30,448)
At 31 December 2015			
Accumulated amortisation	–	(316,605)	(316,605)
Accumulated impairment loss	(2,794)	–	(2,794)
	(2,794)	(316,605)	(319,399)
Carrying amounts			
At 1 January 2014	830,048	588,901	1,418,949
At 31 December 2014/1 January 2015	772,885	519,036	1,291,921
At 31 December 2015	857,340	539,609	1,396,949
	Note 4.1	Note 4.2	

4.1 Goodwill

The goodwill recognised on acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the companies into the Group's existing oil, gas and petrochemical industry.

4. INTANGIBLE ASSETS (CONTINUED)

4.2 Other intangible assets

Other intangible assets comprise technology including patents and software, customers related intangibles including customer contracts and supply agreement and marketing related intangibles including tradenames. These intangible assets with finite useful lives are amortised over their useful lives ranging from 1 to 20 years while the others with infinite useful lives are tested for impairment annually or shorter if there is an indication of impairment.

4.3 Amortisation and impairment charge

Amortisation of technology and customers related intangible assets is included as other operating expenses in profit or loss.

4.4 Impairment loss

In prior year, the goodwill of RM6,672,000 (which was in relation to the acquisition of the business in Australia in 2006 and 2007) was fully impaired pursuant to the sale of the Australian entities which was completed during the financial year as disclosed in Note 34 of the financial statements.

4.5 Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's geographical unit which represents lowest level within the Group at which the goodwill is monitored for internal management purpose.

The entire carrying amount of goodwill is allocated to the Germany unit.

The recoverable amounts of the cash-generating units were based on fair value less costs of disposal calculations. These calculations use after-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows between the five to ten-year period are extrapolated using adjusted average growth rates. The estimated growth rate used in the terminal value is 2%.

Fair value less costs of disposal was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

(i) The basis of determination of the budgeted gross margins is based on the estimated achievable margin of on-going projects and the estimated margins of new projects to be incepted for the budgeted years.

(ii) The after-tax discount rate used is 9% (2014: 9%).

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data).

The above estimates are particularly sensitive in the following areas:

- An increase of 1.36% (2014: 1.36%) in the discount rate used for the Germany unit would result in an impairment loss of RM28.2 million (2014: RM130.2 million).

- A decrease of 3.00% (2014: 3.00%) in estimated growth rate in cash flow beyond the first 5 year period used for Germany unit would result in an impairment loss of RM11.7 million (2014: RM132.0 million).

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

5. INTERESTS IN SUBSIDIARIES

	Company 2015 RM'000	2014 RM'000
Unquoted shares - at cost	1,653,190	1,651,396
Less: Impairment loss	(100)	(100)
Amount due from subsidiaries	65,851	65,851
	1,718,941	1,717,147

The amount due from subsidiaries relates to advances which are unsecured, non-repayable and interest free. The entire non-repayable advances are recognised as the Company's interest in subsidiaries.

Details of the subsidiaries are shown in Note 32 to the financial statements.

Non-controlling interests in subsidiaries

The Group's subsidiaries that have non-controlling interests are not material to the Group.

6. INVESTMENTS IN ASSOCIATES

	Group 2015 RM'000	2014 RM'000
Unquoted shares - at cost	40	40
Share of post-acquisition reserve	(17)	(16)
	23	24

Details of the associates are as follows:

Name of Company	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest 2015 %	2014 %
Dimensi Bumijaya Sdn. Bhd. **	Malaysia	Dormant	40	40
Konsortium AHHK Sdn. Bhd. ^	Malaysia	Dormant	29	–

** Audited by another firm of accountants.
^ Equity-accounted using management accounts as at 31 December 2015.

7. INVESTMENTS IN JOINT VENTURES

	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Unquoted shares - at cost	4,023	5,725	40	40
Share of post acquisition reserve	(3,729)	1,361	–	–
Additions	1,278	–	–	–
Disposal	(428)	(1,723)	–	–
Effect of movements in exchange rates	171	20	–	–
	1,315	5,383	40	40

Details of the joint ventures are as follows:

Name of Company	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest 2015 %	Effective ownership interest and voting interest 2014 %
Petrosab Petroleum Sdn. Bhd. **	Malaysia	Investment holdings	40	40
CNI Engineering & Construction Malaysia Sdn. Bhd.	Malaysia	Engineering, procurement, construction, service fabrication and maintenance works for mechanical, electrical and erection related to oil and gas, power, petrochemical and renewable energy industries	70	70
Hansol KNM Greentech Sdn. Bhd.**	Malaysia	Engineering, Procurement, Construction, Commissioning ("EPCC") contractor	40	–
Verwater KNM Sdn. Bhd.**	Malaysia	Involved in the business of relocating and jacking of tank catalyst change-out and chemical cleaning works	100	50
Subsidiary of Petrosab Petroleum Sdn. Bhd.				
Petrosab Petroleum Engineering Sdn. Bhd. **	Malaysia	Operate the business of providing services relating to the arrangement of design, engineering, procurement, construction testing and other kinds of services relating to oil, gas, petrochemical, minerals, biofuel and energy industries	52	52

** Audited by another firm of accountants.

7. INVESTMENTS IN JOINT VENTURES (CONTINUED)

CNI Engineering & Construction Malaysia Sdn. Bhd. ("CNI")

The Group owns 70% of shareholdings in CNI Engineering & Construction Malaysia Sdn. Bhd. ("CNI") and the remaining 30% voting rights are held by a third party.

Notwithstanding the Group having majority voting rights, there are substantive rights conferred to the third party pursuant to the shareholders agreement. These rights, if exercised, could prevent the Group from having practical ability to unilaterally direct the relevant activities of CNI.

Pursuant to the shareholders agreement, the Group does not have full control over CNI in the context of MFRS 10 but has joint control in CNI. Accordingly, CNI has been classified as a joint venture of the Group in accordance with MFRS 11. This resulted in CNI being equity-accounted instead of consolidated in the current year.

Verwater KNM Sdn. Bhd. ("VKSB")

On 1 September 2015, the Group via its wholly-owned subsidiary, KNM International Sdn. Bhd. ("KNMI"), acquired the remaining 375,000 ordinary shares (representing 50% equity interest) from the other joint venture partner, Paul Antonius Verwater, for a total consideration of RM1.00.

As at reporting date, the Group holds 100% equity interest in VKSB and has recognised VKSB as a subsidiary (see Note 32). This resulted in VKSB being consolidated instead of equity-accounted after the acquisition.

The following table summarised the financial information of the Group's interest in the entities, which is accounted for using the equity method.

	Group	
	2015	**2014**
	RM'000	**RM'000**
As at 31 December		
Group's share of net assets/carrying amount in the statement of financial position	1,315	5,383
Group's share of results		
Year ended 31 December		
Group's share of (loss)/profit for the year	(6,343)	467
Group's share of other comprehensive income	1,335	119
Group's share of total comprehensive (expense)/income	(5,008)	586

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

8. OTHER INVESTMENTS

Group	Unquoted Shares RM'000	Club Member-ship RM'000	Redeemable Convertible Preference Shares RM'000	Total RM'000
2015				
Non-current				
Available-for-sale financial asset	2,310	70	–	2,380
Loans and receivables	–	–	12,139	12,139
	2,310	70	12,139	14,519
Less: Impairment loss	(1,848)	(10)	(2,139)	(3,997)
	462	60	10,000	10,522
2014				
Non-current				
Available-for-sale financial asset	4,010	70	–	4,080
Loans and receivables	–	–	12,139	12,139
	4,010	70	12,139	16,219
Less: Impairment loss	(1,504)	(10)	–	(1,514)
	2,506	60	12,139	14,705

The other investments above do not have a quoted market price in an active market and as such, the fair value cannot be reliably measured. Therefore, the other investments are measured at cost.

During the financial year, the Group recognised impairment losses amounting to RM3,997,000 (2014: RM1,514,000). Impairment losses are recognised as the carrying amounts of these investments exceeded their estimated recoverable amounts, which were determined based on the projection of income and other future cashflow from the other investment.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

9. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	4,620	4,428	(22,019)	(23,691)	(17,399)	(19,263)
Revaluation*	13,334	3,017	(242,625)	(232,584)	(229,291)	(229,567)
Provisions	9,222	14,115	–	–	9,222	14,115
Other items	19,408	20,694	(931)	(3,284)	18,477	17,410
Tax loss carry-forward and unutilised capital allowances	345,824	340,114	–	–	345,824	340,114
Tax assets/(liabilities)	392,408	382,368	(265,575)	(259,559)	126,833	122,809
Set off of tax	(46,980)	(40,337)	46,980	40,337	–	–
Net tax assets/(liabilities)	345,428	342,031	(218,595)	(219,222)	126,833	122,809

* Includes deferred tax arising from revaluation of property, plant and equipment and fair value adjustment in purchase price allocation exercise.

Key sources of estimation uncertainty

The carrying value of deferred tax assets of the Group at 31 December 2015 is mainly attributed from the recognised tax losses of a subsidiary. Based on the projected future taxable profits, the recognised tax losses of that subsidiary is expected to be fully utilised.

Assumptions about the generation of future taxable profits are dependent on management's projection of future profitability of the entity concerned. These assumptions include the estimation of future contract revenue that could be generated and the related contracts' profit margins, timing as to when the contracts can be secured including project financing and support of lenders to facilitate the timing of commencement of projects, operating and administrative costs, capital expenditure, other capital management transactions and non-amendments of income tax legislation. Actual results could be significantly different from the Directors' estimate of future profitability since anticipated events may not occur as expected and the variation could be material. These judgements and assumptions are subject to significant risks and uncertainties. Hence, there is a possibility that changes in circumstances may impact the extent of the amount of deferred tax assets recognised in the statements of financial position and statements of profit or loss.

Unrecognised deferred tax assets

No deferred tax has been recognised for the following items (stated at gross amounts):

	Group	
	2015	2014
	RM'000	RM'000
Tax loss carry-forward	46,484	60,206
Unutilised capital allowances	4,237	5,252

The above items do not expire under current tax legislation except for tax loss carry-forward of RM107,000 (2014: RM415,000) which will expire should there be a substantial change in shareholders (more than 50%).

9. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Unrecognised deferred tax assets (continued)

Besides the above, a tax loss carry-forward relating to an oversea subsidiary of RM8,065,000 (2014: RM16,925,000) will expire in 2 to 5 years under the legislation of that country.

Deferred tax assets have not been recognised in respect of the unutilised tax losses and unutilised capital allowances above because it is not probable that future taxable profit will be available against which the Group entities can utilise the benefits there from.

Movement in temporary differences during the year

Group	At 1.1.2014 RM'000	Recognised in profit or loss (Note 22) RM'000	Recognised in equity (Note 22) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2014 RM'000	Recognised in profit or loss (Note 22) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2015 RM'000
Property, plant and equipment	(5,824)	(13,439)	–	–	(19,263)	1,864	–	(17,399)
Revaluation*	(245,524)	5,678	19,854	(9,575)	(229,567)	(59,563)	59,839	(229,291)
Provisions	17,461	(3,346)	–	–	14,115	(4,893)	–	9,222
Other items	7,004	10,406	–	–	17,410	1,067	–	18,477
Tax incentive	15,267	(15,267)	–	–	–	–	–	–
Tax loss carry-forward and unutilised capital allowance	348,814	(8,700)	–	–	340,114	5,710	–	345,824
	137,198	(24,668)	19,854	(9,575)	122,809	(55,815)	59,839	126,833

* Includes deferred tax arising from revaluation of property, plant and equipment and fair value adjustment in purchase price allocation exercise.

10. INVENTORIES

	Group 2015 RM'000	Group 2014 RM'000
At cost:		
Raw materials	22,004	30,426
Tools and consumables	34,421	18,885
Work-in-progress	–	724
	56,425	50,035
At net realisable value:		
Raw materials	17,015	15,735
Tools and consumables	1,235	700
Work-in-progress	–	3,963
	74,675	70,433

11. TRADE AND OTHER RECEIVABLES

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Trade					
Trade receivables		546,926	455,214	–	–
Amount due from contract customers	11.1	504,885	491,925	–	–
		1,051,811	947,139	–	–
Non-trade					
Amount due from					
- subsidiaries	11.2	–	–	199,787	426,965
- associates	11.2	3	2	2	2
- joint ventures	11.2	15,570	11,738	4,040	3,880
Other receivables	11.3	47,503	38,464	3,816	1,821
Deposits	11.4	18,798	19,509	3	3
Prepayments	11.5	50,691	60,398	2,120	1,642
		132,565	130,111	209,768	434,313
		1,184,376	1,077,250	209,768	434,313

11.1 Construction work-in-progress

	Note	Group 2015 RM'000	Group 2014 RM'000
Aggregate costs incurred to date		4,216,870	3,859,736
Add: Net attributable profits		1,267,222	994,040
Less: Foreseeable losses		(1,031)	(23,594)
		5,483,061	4,830,182
Less: Progress billings		(5,133,483)	(4,494,003)
		349,578	336,179
Represented by:			
Amount due from contract customers		504,885	491,925
Amount due to contract customers	19	(155,307)	(155,746)
		349,578	336,179

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

11.1 Construction work-in-progress (continued)

Additions to aggregate costs incurred during the year include:

	Note	Group 2015 RM'000	Group 2014 RM'000
Depreciation of property, plant and equipment	3.1	53,599	56,138
Hire of plant and machineries		5,532	6,038
Rental of premises		11,058	11,452
Rental of machineries		222	216
Staff costs		277,419	269,589

11.2 Amounts due from subsidiaries, associates and joint ventures

The amounts due from subsidiaries, associates and joint ventures are unsecured, interest free and repayable on demand except for RM15,552,000 (2014: RM299,768,000) due from subsidiaries which are subject to interest ranging from 6.20% (2014: 2.90%) per annum.

11.3 Other receivables

Included in other receivables of the Group are Goods and Services Tax ("GST") and Value Added Tax ("VAT") receivable amounting to RM7,179,000 (2014: RM12,627,000).

11.4 Deposits

Included in deposits of the Group are rental deposit for a building of RM165,000 (2014: RM165,000) paid to a company in which certain directors have financial interest. Also included in deposits of the Group is a deposit placed for the acquisition of a combined 72% equity interest in Asia Bio-Fuels Limited and 49% equity interest in Asia Biofuels II Ltd (collectively referred to as the "ABL Group") of RM15,552,000 (2014: Nil).

11.5 Prepayments

Included in prepayments of the Group are advance payments to suppliers of RM28,728,000 (2014: RM51,292,000).

12. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

	2015 Nominal value RM'000	2015 Assets RM'000	2015 Liabilities RM'000	2014 Nominal value RM'000	2014 Assets RM'000	2014 Liabilities RM'000
Group						
Derivatives held for trading at fair value through profit or loss						
- Forward foreign exchange contracts ("FFEC")	302,756	6,217	(22,824)	184,161	4,543	(16,779)
Derivatives used for hedging	117,963	1	(349)	93,307	1,385	(349)
	420,719	6,218	(23,173)	277,468	5,928	(17,128)

12. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (CONTINUED)

Forward foreign exchange contracts are used to manage the foreign currency exposures arising from the Group's receivables and payables denominated in currencies other than the functional currencies of Group entities. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward contracts are rolled over at maturity.

13. CASH AND BANK BALANCES

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Cash and bank balances	193,685	185,068	269	150
Deposits with licensed banks	5,172	23,440	–	–
	198,857	208,508	269	150

Included in the deposits placed with licensed banks of the Group is RM2,460,000 (2014: RM15,309,000) pledged for a bank facility.

14. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On 5 February 2015, the Group entered into a Sale and Purchase Agreement with a third party for the disposal of the entire business and equity interest in KNM Pty Ltd and its subsidiaries ("disposal group"). Accordingly, as of prior year end, the assets and liabilities of the disposal group were as follows:

	Note	Group 2014 RM'000
Assets classified as held for sale		
Property, plant and equipment	14.1	6,047
Deferred tax assets		372
Inventories	14.2	5,439
Trade and other receivables	14.3	4,460
Derivative financial assets		3
Cash and bank balances		4,834
		21,155
Liabilities classified as held for sale		
Trade and other payables	14.4	42,552
Loan and borrowings	14.5	3,297
Deferred tax liabilities		475
		46,324

14. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (CONTINUED)

The carrying value of property, plant and equipment of the disposal group was the same as its carrying value before it was being reclassified to current asset.

Cumulative income or expenses recognised in other comprehensive income

The cumulative income or expenses recognised in other comprehensive income relating to the disposal group was RM1,002,000.

14.1 Property, plant and equipment held for sale comprised the following:

	Note	Group 2014 RM'000
Cost	3	32,193
Accumulated depreciation	3	(26,146)
		6,047

14.2 Inventories were stated at:

	Group 2014 RM'000
Cost	5,020
Net realisable value	419
	5,439

14.3 Receivables were carried at cost less impairment loss of RM2,540,000.

14.4 Trade and other payables comprised the following:

	Group 2014 RM'000
Trade payables	21,563
Other payables	4,652
Accrued expenses	16,337
	42,552

14.5 Loans and borrowings comprised of hire-purchase creditors.

14. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (CONTINUED)

14.6 Effect of disposal on the financial position of the Group:

	Group 2015 RM'000
Property, plant and equipment	6,047
Deferred tax assets	372
Inventories	5,439
Trade and other receivables	4,944
Cash and cash equivalents	4,834
Trade and other payables	(33,722)
Loan and borrowings	(3,297)
Deferred tax liabilities	(475)
Translation reserve	(4,022)
Net liabilities	(19,880)
Gain on disposal of subsidiaries	19,880
Consideration received, satisfied in cash	-*
Cash and cash equivalents disposed off	(4,834)
Net cash outflow	(4,834)

* Total consideration received was AUD 2 (equivalent to RM5.54)

15. CAPITAL AND RESERVES

15.1 Share capital

	Group and Company			
	Number of shares 2015 '000	Amount 2015 RM'000	Number of shares 2014 '000	Amount 2014 RM'000
Authorised:				
Ordinary shares of RM1.00				
At 1 January	5,000,000	2,500,000	2,250,000	2,250,000
Par value reduction	–	–	–	(1,125,000)
Ordinary shares of RM0.50	5,000,000	2,500,000	2,250,000	1,125,000
Created during the year	–	–	2,750,000	1,375,000
At 31 December	5,000,000	2,500,000	5,000,000	2,500,000

15. CAPITAL AND RESERVES (CONTINUED)

15.1 Share capital (continued)

	Group and Company			
	Number of shares 2015 '000	Amount 2015 RM'000	Number of shares 2014 '000	Amount 2014 RM'000
Issued and fully paid shares:				
Ordinary shares of RM1.00				
At 1 January	1,639,035	774,537	1,490,013	1,445,033
Par value reduction	–	–	–	(745,007)
Ordinary shares of RM0.50	1,639,035	774,537	1,490,013	700,026
Issued for cash under				
- Rights issue	323,158	161,579	146,674	73,337
- Private placement	193,894	96,947	–	–
- ESOS	46	22	2,348	1,174
Allocation of warrant reserve	–	(27,468)	–	–
At 31 December	2,156,133	1,005,617	1,639,035	774,537

On 18 April 2014, the shareholders of the Company approved the par value reduction via cancellation of RM0.50 of par value of every existing share of RM1.00 each in the issued and paid up capital of the Company.

15.2 Treasury shares

On 24 June 2015, the shareholders of the Company renewed the Company's plan to repurchase its own shares.

During the financial year, the Company purchased 20,000 of its issued ordinary shares of RM0.50 each listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM0.58 per share. The total consideration paid was RM11,596 including transaction costs of RM96. The purchase transactions were financed by internally generated funds. The shares purchased are retained as treasury shares. None of the treasury shares held were resold or cancelled during the financial year.

As at 31 December 2015, the Company held 23,311,275 ordinary shares of RM0.50 each as treasury shares out of its total issued and paid-up share capital. Hence, the number of outstanding shares in issue and paid-up after deducting treasury shares as at 31 December 2015 is 2,132,821,367 ordinary shares of RM0.50 each. The treasury shares have no rights to voting, dividends or participation in other distribution.

15.3 Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings.

15.4 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currency other than RM as well as the exchange differences arising from monetary items that in substance form the Company's net investment in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

15. CAPITAL AND RESERVES (CONTINUED)

15.5 Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings. Share option is disclosed in Note 17.

15.6 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

15.7 Warrant reserve

In April 2015, the Company issued 161,578,504 free warrants on the basis of one (1) free Warrant B 2015/2020 ("Warrant B") for every two (2) Rights shares subscribed for in the 2015 Rights Issue Exercise. As a result, an additional 28,754,970 Warrant A 2012/2017 ("Warrant A") were issued following the adjustments made to the outstanding Warrant A. The exercise price of Warrant A was also adjusted from RM1.00 to RM0.98 pursuant to 2015 Rights Issue Exercise. The Warrant A and Warrant B are constituted by a Deed Poll dated 4 October 2012 and 13 March 2015 respectively. The warrants were listed on Bursa Malaysia Securities Berhad on 27 April 2015.

There were no warrants exercised since issuance. The number of warrants unexercised at the end of the reporting period was 679,254,133, consisting of 517,675,629 Warrant A and 161,578,504 Warrant B respectively (2014: 488,920,659 Warrant A only). Both Warrant A and Warrant B will expire on 15 November 2017 and 21 April 2020 respectively.

16. LOANS AND BORROWINGS

		Group	
		2015 RM'000	2014 RM'000
Non-current			
Floating rate term loans	- secured	189,440	55,325
	- unsecured	91,797	145,809
Fixed rate term loans	- unsecured	34,344	409
Floating rate finance lease liabilities		6,238	9,893
Fixed rate finance lease liabilities		14,612	6,663
		336,431	218,099
Current			
Bank overdrafts	- secured	2,513	4,365
Bills payable	- secured	19,642	7,224
	- unsecured	72,952	111,318
Floating rate term loans	- secured	33,879	239,028
	- unsecured	135,821	110,125
Fixed rate term loans	- secured	32,093	33,354
	- unsecured	466	418
Revolving credit	- unsecured	77,923	63,500
Floating rate finance lease liabilities		4,760	5,856
Fixed rate finance lease liabilities		1,980	2,006
		382,029	577,194
		718,460	795,293

16. LOANS AND BORROWINGS (CONTINUED)

16.1 The secured trade facilities of the Group and the Company are secured by way of:

(i) Legal charge over the industrial land and buildings of certain subsidiaries.

(ii) Pledge of the Group's shares in a foreign subsidiary, including assignment over all dividend payments arising there from.

In connection with the trade facilities, the significant covenants, among others:

(i) In respect of the Group:

a. The Group debt to equity ratio for the financial year ended 31 December 2015 shall not be more than 1.75 times (2014: 1.75 times) at all times.

b. Not to dispose of or divest any of its tangible assets which will materially and adversely affect its existing business operation (other than in the ordinary course of business).

c. Not to dispose of or divest any of its material subsidiaries.

d. The Finance Service Cover Ratio (FSCR ratio) of the Group shall not be less than 1.5 times (2014: 1.5 times).

(ii) The following covenants relate to a foreign subsidiary to be assessed in accordance to the audited financials prepared using the local Generally Accepted Accounting Principles in that country:

a. The Interest Cover ratio for periods ending on or after 31 March 2015 shall exceed a ratio of 4.50 times (2014: 4.50 times).

b. Maintenance of leverage ratio of not more than 2.5 times (2014: 3.0 times) for the financial year ended 31 December 2015.

c. Working Capital Cover ratio for periods ending on or after 31 March 2015 shall be equal to or more than 120% (2014: 120%).

d. Minimum Equity for the financial year ended 31 December 2015 shall not be less than 30.0% (2014: 22.5%).

16.2 The secured term loans of the Group and the Company are secured by way of:

(i) Legal charge over the industrial land and buildings of certain subsidiaries.

(ii) Pledge of the Group's shares in a foreign subsidiary, including assignment over all dividend payments arising there from.

In respect of a foreign subsidiary, the covenants as disclosed in Note 16.1(ii) are also applicable.

16.3 The unsecured term loans of the Group were supported by way of corporate guarantee by the Company.

16.4 Revolving credit of the Group is supported by way of corporate guarantee from the Company.

The revolving credit covenant include the following:

(i) The Group Consolidated Debt Service Cover Ratio (DSCR) shall not be less than 1.25 times.

(ii) The Group's Consolidated debt to equity ratio for the financial year ended 31 December 2015 shall not be more than 1.50 times at all times.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

16. LOANS AND BORROWINGS (CONTINUED)

16.5 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2015 RM'000	Interest 2015 RM'000	Present value of minimum lease payments 2015 RM'000	Future minimum lease payments 2014 RM'000	Interest 2014 RM'000	Present value of minimum lease payments 2014 RM'000
Less than one year	7,752	(1,012)	6,740	8,824	(962)	7,862
Between one and five years	14,181	(1,933)	12,248	17,475	(1,196)	16,279
More than five years	9,809	(1,207)	8,602	278	(1)	277
	31,742	(4,152)	27,590	26,577	(2,159)	24,418

The finance lease liabilities are subject to interest ranging from 1.88% to 6.25% (2014: 1.88% to 6.25%) per annum.

17. EMPLOYEE BENEFITS

Share-based payment arrangement

On 18 April 2014, the Company's shareholders approved the establishment of an ESOS to all eligible employees including Directors of the Company and its subsidiaries. In accordance with the ESOS, holders of vested ESOS options are entitled to purchase KNM shares at the market price of the shares at the date of grant.

The terms and conditions related to the grants of the share option program are as follows:

Grant date	Number of options ('000)	Vesting conditions	Contractual life of options
Options granted on 25.7.2014	26,846	Employee in service on grant date	8 years
Options granted on 25.7.2015	24,956	Employee in service on grant date	7 years
	51,802		

17. EMPLOYEE BENEFITS (CONTINUED)

Share-based payment arrangement (continued)

The number and weighted average exercise price of share options are as follows:

	2015		2014	
	Exercise price	**Number of options '000**	**Exercise price**	**Number of options '000**
Outstanding at 1 January	RM0.66	24,264	–	–
Adjusted during the year	RM0.65	1,439	–	–
Granted during the year	RM0.65	24,956	RM0.66	26,846
Exercised during the year	RM0.65	(46)	RM0.66	(2,348)
Lapsed during the year	RM0.65	(1,146)	RM0.66	(234)
Outstanding at 31 December	RM0.65	49,467	RM0.66	24,264
Exercisable at 31 December	RM0.65	49,467	RM0.66	24,264

The options outstanding at 31 December 2015 have an exercise price of RM0.65 and a weighted average contractual life of 7 years.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Trinomial Option Pricing Model, with the following input:

Fair value of share options and assumptions	**2015**	**2014**
Fair value at grant date	RM0.18	RM0.37
Weighted average share price	RM0.51	RM0.73
Share price at grant date	RM0.60	RM0.99
Expected volatility	47.55%	37.99%
Option life	6.4 years	4 years
Expected dividends	3.09%	3.09%
Risk-free interest rate	4.05%	3.59%

Value of employee services received for issue of share options

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Total expense recognised as share-based payments	5,575	12,902	2,309	3,283

18. LONG TERM PAYABLES

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Social security institutions	18.1	10,336	10,787	–	–
Other long term payables	18.2	37,439	41,355	37,439	41,355
Amount due to a subsidiary	18.3	–	–	–	483,941
		47,775	52,142	37,439	525,296

18.1 Amounts payable to social security institutions of foreign subsidiaries are unsecured, interest free and not repayable within the next twelve months.

18.2 The other long term payables relate to advances from a company in which certain Directors have substantial financial interest is unsecured, interest free and not repayable within the next twelve months.

18.3 In prior year, the amount due to a subsidiary was non-trade in nature, unsecured, interest free and not repayable within the next twelve months.

19. DEFERRED INCOME

	Note	Group 2015 RM'000	Group 2014 RM'000
Amount due to contract customers	11.1	155,307	155,746

20. TRADE AND OTHER PAYABLES

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Trade					
Trade payables	20.1	282,102	375,324	–	–
Non-trade					
Amount due to					
- subsidiaries	20.2	–	–	824	2,016
- associates	20.2	88	90	–	–
- joint ventures	20.2	875	350	–	–
- related parties	20.2	31,941	22,424	–	–
Other payables		29,566	10,722	3,843	900
Accrued expenses		81,934	74,051	1,078	695
		144,404	107,637	5,745	3,611
		426,506	482,961	5,745	3,611

20.1 Included in trade payables is an amount due to a related party amounting to RM58,000 (2014: Nil).

20. TRADE AND OTHER PAYABLES (CONTINUED)

20.2 The amounts due to subsidiaries, associates, joint ventures and companies in which certain Directors have substantial financial interest are unsecured, interest free and repayable on demand.

21. FINANCE COSTS

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Interest expenses of financial liabilities that are not at fair value through profit or loss:				
- Term loans	20,517	42,018	–	–
- CP/MTN	543	–	–	–
- Revolving credit	7,819	4,172	859	–
- Bank overdrafts	560	840	–	–
- Finance lease	1,054	1,729	–	–
	30,493	48,759	859	–
Bank and other charges	6,143	4,333	3	2
	36,636	53,092	862	2
Interest expenses:				
- Recognised in profit or loss	36,636	53,092	862	2

22. TAX EXPENSE

Recognised in profit or loss

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Current tax expense				
Malaysian				
- current year	2,450	2,223	1,697	1,734
- under/(over) provision in prior year	545	198	(21)	(48)
Overseas				
- current year	15,956	47,906	–	–
- under provision in prior year	1,470	3,502	–	–
	20,421	53,829	1,676	1,686
Deferred tax expense				
- current year	55,791	24,742	–	–
- under/(over) provision in prior year	24	(74)	–	–
	55,815	24,668	–	–
Total tax expense	76,236	78,497	1,676	1,686

22. TAX EXPENSE (CONTINUED)

Recognised in profit or loss (continued)

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Reconciliation of tax expense				
Profit for the year	47,899	39,752	6,061	1,459
Total income tax expense	76,236	78,497	1,676	1,686
Profit excluding tax	124,135	118,249	7,737	3,145
Income tax using Malaysian tax rate of 25% (2014: 25%)	31,034	29,562	1,934	786
Effect of tax rates in foreign jurisdictions*	287	3,974	–	–
Non-deductible expenses	46,846	45,329	742	948
Effect of change in tax rate^	18	(13,572)	–	–
Tax exempt income	(695)	(931)	(979)	–
Effect of tax losses not recognised	467	11,924	–	–
Utilisation of previously unrecognised temporary differences	(4,151)	(1,415)	–	–
Others	391	–	–	–
	74,197	74,871	1,697	1,734
Under/(Over) provision in prior year				
- Current tax expense	2,015	3,700	(21)	(48)
- Deferred tax expense	24	(74)	–	–
	76,236	78,497	1,676	1,686

* Tax rates in several foreign jurisdictions are different from the tax rates in Malaysia.

^ The corporate tax rate is 24% for year of assessment 2016 onwards. Consequently, deferred tax assets and liabilities are measured using these tax rates.

Tax recognised directly in equity

	Group	
	2015 RM'000	**2014 RM'000**
Deferred tax liabilities arising from revaluation of land and buildings (Note 9)	–	19,854

23. PROFIT FOR THE YEAR

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Profit for the year is arrived at after charging:				
Auditors' remuneration				
- Audit fees				
KPMG in Malaysia				
- current year	565	550	150	155
- prior year	(5)	8	(5)	5
Overseas affiliates of KPMG in Malaysia	2,160	2,758	–	–
Other auditors	109	80	–	–
- Non-audit fees				
KPMG Malaysia	10	52	10	52
Local affiliates of KPMG in Malaysia	118	308	9	9
Overseas affiliates of KPMG in Malaysia	462	644	–	–
Depreciation of property, plant and equipment (Note 3.1)	8,700	9,813	–	–
Amortisation of intangible assets	35,102	35,597	–	–
Bad debts written off	1,320	2,882	–	–
Impairment loss:				
- Goodwill	–	6,672	–	–
- Other receivables	28	1,242	28	–
- Other investment	3,987	–	–	–
- Property, plant and equipment	–	1,139	–	–
- Trade receivables	6,156	5,667	–	–
Loss on disposal of other investment	257	–	–	–
Loss on foreign exchange				
- Realised	–	8,197	–	48
- Unrealised	–	–	187	–
Change in fair value of forward contract	5,162	9,724	–	–
Rental of equipment	3,261	3,399	–	–
Rental of premises	15,786	18,706	–	–
Personnel expenses				
- Contribution to Employees' Provident Fund	9,276	9,314	–	–
- Share-based payments	5,575	12,902	2,309	3,283
- Wages, salaries and others	154,635	154,258	200	706
Property, plant and equipment written off	–	425	–	–
Provision for foreseeable losses	55	549	–	–
Provision for warranty	9,252	–	–	–
Provision for late delivery charges	–	1,167	–	–

23. PROFIT FOR THE YEAR (CONTINUED)

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
and after crediting:				
Gain on disposal of:-				
- Property, plant and equipment	–	3,177	–	–
- Other investments	–	2,437	–	–
- Subsidiaries	19,880	–	–	–
- Joint venture	–	709	–	–
Gain on foreign exchange				
- Realised	981	–	10	–
- Unrealised	97,556	58,224	–	–
Rental income from property	54	705	–	–
Reversal of impairment loss of:				
- Other investments	–	153	–	–
- Property, plant and equipment	–	3,318	–	–
- Trade receivables	4,026	1,020	–	–
Reversal of provision for late delivery charges	849	–	–	–

24. EARNINGS PER ORDINARY SHARE - GROUP

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2015 was based on the profit attributable to owners of the Company of RM49,527,000 (2014: RM42,187,000) and the weighted average number of ordinary shares outstanding during the year of 1,867,393,000 (2014: 1,554,647,000).

	2015 '000	2014 '000
Issued ordinary shares at beginning of the year	1,639,035	1,490,014
ESOS	37	710
Issuance of shares	27,623	87,201
Effect of treasury shares held	(23,298)	(23,278)
Rights issue	223,996	–
Weighted average number of ordinary shares	1,867,393	1,554,647

	2015 Sen	2014 Sen
Basic earnings per ordinary share	2.65	2.72

Diluted earnings per ordinary share

The Group's diluted earnings per ordinary share at 31 December 2014 and 2015 are equivalent to its basic earnings per ordinary share as disclosed above.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

25. DIVIDENDS

The Directors do not recommend any dividend to be paid for the financial year under review.

26. CONTINGENT LIABILITIES

	Company	
	2015	**2014**
	RM'000	**RM'000**
Guarantees issued for borrowings of subsidiaries		
- Secured	250,250	354,360
- Unsecured	772,823	733,440
	1,023,073	1,087,800

27. COMMITMENTS

	Group	
	2015	**2014**
	RM'000	**RM'000**
Capital commitments:		
Property, plant and equipment		
Contracted but not provided for in the financial statements	63,762	6,581
Authorised but not contracted for	8,851	13,473
	72,613	20,054
Joint venture commitments:		
Capital commitments for the joint ventures	761	791

28. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and entity that provides key management personnel services to the Group. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

28. RELATED PARTIES (CONTINUED)

Identity of related parties (continued)

Controlling related party relationships are as follows:

(i) Its subsidiary companies as disclosed in Note 32.

(ii) Its associates as disclosed in Note 6.

(iii) Its joint ventures as disclosed in Note 7.

(iv) The substantial shareholders of the Company, Inter Merger Sdn. Bhd..

(v) Inter Merger Sdn. Bhd. and IM Bina Sdn. Bhd., companies in which the Directors, Lee Swee Eng and Gan Siew Liat have substantial financial interest.

(vi) Tofield Realty Development Corporation, a wholly-owned subsidiary of Asiavertek Sdn. Bhd. in which the Directors, Lee Swee Eng and Gan Siew Liat have substantial financial interest.

(vii) Nasser Hazza is an entity controlled by Mohammed Nasser Hazza Al Fehaid Al Subaei, a director of Saudi KNM Ltd..

(viii) KPS Technology & Engineering LLC, a company in which Lee Swee Eng is a substantial shareholder.

(ix) Key management personnel.

Related party transactions have been entered into in the normal course of business under negotiated terms. The significant related party transactions of the Group and the Company are shown below:

		Group		Company	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
A.	**Subsidiaries**				
	Management fees received	–	–	(6,360)	(4,703)
	Loan interest received	–	–	(7,040)	(7,166)
	ESOS charged	–	–	(1,820)	(7,799)
	Treasury management fees	–	–	120	120
	Manpower charges payable	–	–	–	706
B.	**Joint ventures**				
	Petrosab Petroluem Engineering Sdn. Bhd.				
	Contract billing receivable	(423)	(8,467)	–	–
	Administrative and other support - services	(1,058)	(662)	–	–
C.	**Related parties**				
	Inter Merger Sdn. Bhd.				
	Rental of premises	1,261	1,209	–	–
	Administrative charges	493	561	–	–
	IM Bina Sdn. Bhd.				
	Contract billing payable	15,024	2,625	–	–

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

28. RELATED PARTIES (CONTINUED)

	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
C. Related parties (continued)				
Tofield Realty Development Corporation				
General mechanical and engineering	389	399	–	–
KPS Technology & Engineering LLC				
Administrative and other support - services	344	–	–	–
D. Key management personnel				
Directors				
- Fees	1,177	1,019	1,177	1,019
- Remuneration	5,354	3,704	4,574	3,032
- Employee benefits (including estimated monetary value of benefit-in-kind)	25	29	25	29
- Share-based payments	2,309	4,697	2,309	4,697
	8,865	9,449	8,085	8,777
Subsidiaries directors				
- Short-term employee benefits	9,192	10,740	–	–
- Share-based payments	802	1,427	–	–
	9,994	12,167	–	–
Other key management personnel				
- Short-term employee benefits	5,795	7,068	–	–
- Share-based payments	1,236	1,610	–	–
	7,031	8,678	–	–
	25,890	30,294	8,085	8,777

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the Group entities either directly or indirectly.

Significant related party balances related to the above transactions are disclosed in Notes 5, 11, 18, 20. Other than as disclosed in the notes, there are no impairment loss and bad debts written off in respect of its amount due from related parties.

29. FINANCIAL INSTRUMENTS

29.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Fair value through profit or loss ("FVTPL"):
 - Held for trading ("HFT");
(c) Available-for-sale financial assets ("AFS"); and
(d) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	L&R RM'000	FVTPL -HFT RM'000	AFS RM'000	Derivatives used for hedging RM'000
2015					
Financial assets					
Group					
Other investments	10,522	10,000	–	522	–
Trade and other receivables	1,133,685	1,133,685	–	–	–
Derivative financial assets	6,218	–	6,217	–	1
Cash and bank balances	198,857	198,857	–	–	–
	1,349,282	1,342,542	6,217	522	1
Company					
Trade and other receivables	207,648	207,648	–	–	–
Cash and bank balances	269	269	–	–	–
	207,917	207,917	–	–	–

	Carrying amount RM'000	FL RM'000	FVTPL -HFT RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
Loans and borrowings	(718,460)	(718,460)	–	–
Trade and other payables	(480,629)	(480,629)	–	–
Derivative financial liabilities	(23,173)	(22,824)	–	(349)
	(1,222,262)	(1,221,913)	–	(349)
Company				
Trade and other payables	(43,184)	(43,184)	–	–

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R RM'000	FVTPL -HFT RM'000	AFS RM'000	Derivatives used for hedging RM'000
2014					
Financial assets					
Group					
Other investments	14,705	12,139	–	2,566	–
Trade and other receivables	1,016,852	1,016,852	–	–	–
Derivative financial assets	5,928	–	4,543	–	1,385
Cash and bank balances	208,508	208,508	–	–	–
	1,245,993	1,237,499	4,543	2,566	1,385
Company					
Trade and other receivables	432,671	432,671	–	–	–
Cash and bank balances	150	150	–	–	–
	432,821	432,821	–	–	–

	Carrying amount RM'000	FL RM'000	FVTPL -HFT RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
Loans and borrowings	(795,293)	(795,293)	–	–
Trade and other payables	(537,989)	(537,989)	–	–
Derivative financial liabilities	(17,128)	(16,779)	–	(349)
	(1,350,410)	(1,350,061)	–	(349)
Company				
Trade and other payables	(528,907)	(528,907)	–	–

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.2 Net gains and losses arising from financial instruments

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Net gains/(losses) arising on:				
Fair value through profit or loss:				
- Held for trading	(5,162)	(12,234)	–	–
Loans and receivables	87,832	35,957	11,337	7,362
Financial liabilities measured at amortised cost	(40,740)	8,952	(862)	(2)
	41,930	32,675	10,475	7,360

29.3 Financial risk management objectives and policies

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Foreign currency risk
- Interest rate risk

The Group's financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from its exposure to fluctuations in financial risks.

29.4 Credit risk

The Group's exposure to credit risk arises mainly from external counter-party risk on onerous project contracts and on monetary financial assets; whilst, at Company level mainly from internal counter-party risk on financial guarantees, loans and advances extended to its subsidiaries.

The Group's objective on credit risk management is to avoid significant exposure to any individual counter party and to minimise concentration of credit risk. The Group achieves this through its operating units' practices on credit and credit assessment, and performs central monitoring such as on credit risk concentration, credit evaluation, and credit impairment; whilst, the business units are responsible for their respective day-to-day credit risk management.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.4 Credit risk (continued)

Policies and Processes

Policies and processes in managing credit risk varies with the classes of counter-parties as outlined below:

(i) Contract customer

Process & Specialised Equipment & Turnkey Contracts

Most orders are treated as onerous construction contracts, where billings are based on the progress milestones which typically are split into four or more stages of a project's life cycle. Large order such as Engineering, Procurement and Constructions, billings are negotiated to closely mirror the cash flow requirements in contract execution. An advance from the customers would normally be required before the commencement of work, and similarly the customer would demand a Bank or Corporate Guarantee on its advancement made and/or as a form of guaranteeing performance. Customers' orders are usually components of a larger project which has secured financing. As such, credit risk exposure is typically low at the early and mid-stages of a project life cycle, but increase towards the last milestone payment arising from possible variation or contractual disputes. This tail-end risk is managed or mitigated with one or more of the following:

- Professional lien on goods and materials
- Transactional credit documents (i.e. Letter of Credit) on export delivery
- Contract customers are assessed on credit and sovereign nation risks where applicable on both quantitative and qualitative elements.
- Credit exposure is monitored on the aging of receivables, and the projects' progression and variations.

(ii) Financial institutions

The Group places its funds in Banks in over 15 (2014: 16) countries in which it has business presence. The Group also enters into forward foreign exchange contracts with licensed financial institutions for hedging purposes. Credit risk is generally low as the counter-parties are all reputable licensed institutions. Where financial derivatives are involved, mandatory International Swaps and Derivatives Association (ISDA) agreements are incepted where necessary.

(iii) Financial Guarantees and Advances for Subsidiaries

The Company through 3 (three) (2014: 2) wholly-owned subsidiaries serves as central treasury to certain subsidiaries without external credit facilities by extending term loan, advances and banking trade facilities. For those subsidiaries with their own credit facilities, the Company is often required to provide corporate guarantee to the said banks extending such credit facilities. On the former, the Company enters into formal agreement on pricing and repayment schedule, and continuously monitors the subsidiaries' performances, cash-flows and repayment. On the latter, the Company continuously monitors the subsidiaries' performance and ability to service their credit obligations.

The Group receives financial guarantees given by banks in managing exposure to credit risks. At the end of the reporting period, financial guarantees received by the Group amounted to RM10,916,000 (2014: RM38,883,000) in respect of RM546,926,000 (2014: RM455,214,000) trade receivables. The remaining balance of trade receivables are not secured by any collateral or supported by any other credit enhancements.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.4 Credit risk (continued)

Credit risk exposures and concentration

The Group's credit risks are mainly on financial assets relating to receivables, cash deposits and investments as summarised in the table below for both the Group and Company level.

	Maximum exposure 2015 RM'000	Maximum exposure 2014 RM'000
Group		
Financial assets		
Trade receivables	546,926	455,214
Amount due from contract customers	504,885	491,925
Amount due from related parties, associates and joint ventures	15,573	11,740
Other receivables and deposits	66,301	57,973
Other investments	10,522	14,705
Derivative financial assets	6,218	5,928
Deposits with licensed banks	5,172	23,440
Cash and bank balances	193,685	185,068
	1,349,282	1,245,993
Company		
Financial assets		
Amount due from subsidiaries	199,787	426,965
Amount due from related parties, associates and joint ventures	4,042	3,882
Other receivables and deposits	3,819	1,824
Cash and bank balances	269	150
	207,917	432,821

Receivables

Concentration of Credit Risk

The credit risk concentration of the Group is mainly in the trade receivables and amount due from contract customers, and this is further analysed by its source of operation - geographic location.

	2015		2014	
	RM'000	%	RM'000	%
Asia & Oceania	476,897	45	336,230	36
Europe	492,452	47	551,559	58
America	82,462	8	59,350	6
	1,051,811	100	947,139	100

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.4 Credit risk (continued)

Receivables (continued)

Concentration of Credit Risk (continued)

The Group uses aging analysis as the primary reporting tool to monitor the credit quality of the trade receivables. Trade receivables past due 60 days are monitored more regularly on the collection efforts.

Impairment losses

The aging of trade receivables as at the end of the reporting period was:

Group	Gross RM'000	Impairment RM'000	Net RM'000
2015			
Not past due	298,029	–	298,029
Past due 0 - 30 days	138,629	–	138,629
Past due 31 - 60 days	18,979	–	18,979
Past due 61 - 120 days	41,492	–	41,492
Past due more than 120 days	67,752	(17,955)	49,797
	564,881	(17,955)	546,926
2014			
Not past due	318,486	–	318,486
Past due 0 - 30 days	55,454	–	55,454
Past due 31 - 60 days	6,262	–	6,262
Past due 61 - 120 days	9,429	–	9,429
Past due more than 120 days	81,566	(15,983)	65,583
	471,197	(15,983)	455,214

The allowance account in respect of trade receivables is used to record impairment losses where the Group is doubtful of the collection. Doubtful amount will be written off against the allowance account if recovery channels are exhausted.

No impairment loss was provided for remaining balance of trade receivables which was past due for more than 120 days as negotiations with the customers are on-going to recover the outstanding amounts.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.4 Credit risk (continued)

Impairment losses (continued)

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	Group 2015 RM'000	Group 2014 RM'000
At 1 January	15,983	25,265
Impairment loss recognised	6,156	5,667
Impairment loss reversed	(4,026)	(1,020)
Impairment loss written off	(2,783)	(11,069)
Effect on the movement of exchange rate	2,625	(320)
Transfer to assets held for sale	–	(2,540)
At 31 December	17,955	15,983

29.5 Liquidity risk

The Group's exposure to liquidity risk primarily arises from its capabilities to meet its financial obligations, principally its trade payables, loans and borrowings, as and when it falls due. The Group's liquidity risk management objective is to ensure that all foreseeable funding commitments can be met as and when due in a cost-effective manner.

Policies and Processes

The Group leverages on the Company as the public listed parent company to support 3 (three) of its wholly-owned subsidiaries to play a central treasury and liquidity management role to better manage its weighted average cost of funds, whilst day-to-day operational liquidity needs are decentralised at the Business Unit level. Foreign Business Units are encouraged to seek localised trade financing facilities in their respective currencies where appropriate.

The Group actively manages its operating cash-flows and the availability of funding so as to ensure all operating, investing and financing needs are met. It manages liquidity risks with a combination of the following policies and methods:

- Maintain a diversified range of funding sources with adequate back-up facilities
- Maintain debt financing and servicing plan
- Maintain medium to long term cash-flow planning incorporating funding positions and requirements of all its subsidiaries
- Monitor balance sheet liquidity ratios against internal threshold
- Manage working capital and optimise cash conversion cycle
- Manage maturity profile of both financial and non-financial liabilities

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.5 Liquidity risk (continued)

Maturity analysis

The table below set out the contractual maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on undiscounted contractual payment – which would be met with a combination of matching maturity financial assets, operational cash inflows, and roll-over of current liabilities such as trade facilities.

Group	Carrying amount RM'000	Contractual interest/ profit rates per annum %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2015							
Non-derivative financial liabilities							
Term loans - secured							
- EUR	25,115	2.30% - 5.50%	26,812	5,658	5,521	14,398	1,235
- RM	71,351	5.60% - 7.35%	76,252	21,220	21,331	14,611	19,090
- USD	126,853	4.30%	145,596	14,890	22,054	108,652	–
- CAD	18,871	18.00%	22,102	22,102	–	–	–
- RMB	13,222	5.98%	14,013	14,013	–	–	–
Term loans - unsecured							
- EUR	227,844	1.20% - 4.07%	235,766	139,422	48,672	47,672	–
- USD	34,584	4.29% - 12.00%	55,200	250	–	54,950	–
Revolving credit - unsecured							
- RM	61,000	4.65% - 4.90%	63,989	63,989	–	–	–
- USD	16,923	5.82% - 7.70%	18,227	18,227	–	–	–
Bill payables – secured							
- EUR	2,014	2.70% - 3.30%	2,028	2,028	–	–	–
- USD	17,628	2.70% - 3.30%	17,732	17,732	–	–	–
Bill payables - unsecured							
- USD	57,514	1.40% - 2.70%	59,323	59,323	–	–	–
- EUR	495	1.45% - 2.30%	507	507	–	–	–
- RM	14,943	4.75% - 5.52%	15,765	15,765	–	–	–
Hire purchase and lease creditors							
- EUR	25,982	4.00% - 6.25%	29,990	7,018	7,157	6,007	9,808
- RM	1,608	1.88% - 3.87%	1,751	734	1,017	–	–
Bank overdraft - secured							
- RM	2,513	7.60%	2,704	2,704	–	–	–
Trade and other payables	480,629	–	480,629	426,506	54,123	–	–
	1,199,089		1,268,386	832,088	159,875	246,290	30,133
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
- Outflow	24,577	–	421,284	351,623	69,661	–	–
- Inflow	–	–	(396,707)	(328,794)	(67,913)	–	–
	1,223,666		1,292,963	854,917	161,623	246,290	30,133

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Group	Carrying amount RM'000	Contractual interest/ profit rates per annum %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2014							
Non-derivative financial liabilities							
Term loans - secured							
- EUR	30,024	2.81% - 5.50%	34,300	8,138	5,157	14,556	6,449
- RM	213,673	6.39% - 10.92%	229,842	195,067	34,775	–	–
- USD	54,388	5.10% - 7.12%	57,321	57,321	–	–	–
- CAD	18,354	18.00%	21,497	21,497	–	–	–
- RMB	11,268	6.90%	12,045	12,045	–	–	–
Term loans - unsecured							
- EUR	256,761	1.30% - 5.00%	269,654	115,746	67,013	86,895	–
Revolving credit - unsecured							
- RM	63,500	4.47% - 4.90%	66,612	66,612	–	–	–
Bill payables - secured							
- USD	7,224	2.80% - 2.95%	7,262	7,262	–	–	–
Bill payables - unsecured							
- USD	75,308	1.60% - 4.77%	76,175	76,175	–	–	–
- EUR	12,124	1.46% - 4.29%	12,241	12,241	–	–	–
- RM	23,886	4.42% - 7.14%	24,623	24,623	–	–	–
Hire purchase and lease creditors							
- EUR	22,736	4.00% - 6.25%	24,748	8,081	7,241	9,148	278
- RM	1,682	1.88% - 4.00%	1,829	743	1,086	–	–
Bank overdraft - secured							
- RM	4,365	7.60%	4,696	4,696	–	–	–
Trade and other payables	537,989	–	537,989	482,961	55,028	–	–
	1,333,282		1,380,834	1,093,208	170,300	110,599	6,727
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
- Outflow	12,246	–	280,259	249,526	30,733	–	–
- Inflow	–	–	(268,013)	(239,229)	(28,784)	–	–
	1,345,528		1,393,080	1,103,505	172,249	110,599	6,727

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Company	Carrying amount RM'000	Contractual interest/ profit rates per annum %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2015							
Non-derivative financial liabilities							
Trade and other payables	43,184	–	43,184	5,745	37,439	–	–
Financial guarantee	–	–	1,023,073	1,023,073	–	–	–
2014							
Non-derivative financial liabilities							
Trade and other payables	528,907	–	528,907	3,611	525,296	–	–
Financial guarantee	–	–	1,087,800	1,087,800	–	–	–

29.6 Foreign currency risk

The Group operates in 18 (2014: 20) countries and is exposed to various currencies that gives rise to foreign exchange (FX) risk from the translation of its foreign investments and from FX transactions on its sales and purchases denominated in foreign currency. The Group's main foreign currency exposure is in USD, EUR and RM. RM exposure is attributed to certain of the Company's subsidiaries located in Malaysia but adopting their functional currency in USD and EUR respectively. The Group's foreign currency risk management objective is to minimise transactional FX exposure that gives rise to economic impact.

Policies and Processes

i) Transactional forward obligations or rights denominated in foreign currency.

Transactional FX risk arises mainly from contracted projects' future monetary obligation and rights denominated in currency other than the transaction originating currency. These highly probable future cash flows in foreign currency are first netted based on matching FX risk characteristics for natural hedge, with any net balance exposure being further hedge off with FX Forward Contracts. It is the Group's policy to attain best full hedge in transactional FX risk.

ii) Net investment in Foreign Operations.

The Group does consider matching foreign currency borrowing with the functional currency of its foreign operations in mitigating FX translation gain/loss that are recognised in a separate component of equity. However, this decision is driven by feasibility factors such as the ability to time the future cash flows, availability of foreign currency debt funding, and the foreign currencies' fiscal position and borrowing cost.

Where circumstances permit, FX hedges on the abovementioned would be designated for hedge accounting either as cash-flow hedges, fair value hedges, or net investment hedges.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.6 Foreign currency risk (continued)

The table below sets out the Group's significant financial assets' and liabilities' FX exposure based on the notional or contractual amount for USD, EUR and RM which is different from the reporting functional currency of the respective subsidiaries.

		Denominated in	
	USD	EUR	RM
Group	**RM'000**	**RM'000**	**RM'000**
2015			
Trade receivables	66,274	16,366	15,455
Cash and bank balances	33,754	1,133	1,107
Trade payables	(11,224)	(4,713)	(9,369)
Other payables and accruals	(1,339)	(9,189)	(14,145)
Bills payable	(27,860)	(495)	(22,927)
Forward exchange contracts	17,499	(2)	(59)
Net exposure in the statement of financial position	77,104	3,100	(29,938)
2014			
Trade receivables	85,090	21,305	1,311
Cash and bank balances	9,809	2,220	5,580
Trade payables	(6,033)	(719)	(30,252)
Other payables and accruals	(66)	(1)	(1,596)
Bills payable	(38,892)	(3,352)	(23,264)
Forward exchange contracts	7,207	(793)	(47)
Net exposure in the statement of financial position	57,115	18,660	(48,268)

Currency risk sensitivity analysis

Foreign currency risk mainly arises from Group entities which have US Dollar and Euro functional currency. The exposure to currency risk of Group entities which do not have a US Dollar and Euro functional currency is not material and hence, sensitivity analysis is not presented.

A 5 percent strengthening of Malaysian Ringgit against the US Dollar and Euro at the end of the reporting period would have (decreased)/increased equity and pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant.

	Equity		Profit or loss	
	2015	2014	2015	2014
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**
USD	(118,683)	(100,282)	(3,855)	(2,856)
EUR	(69,417)	(62,214)	(155)	(933)
RM	–	–	1,497	2,413

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.6 Foreign currency risk (continued)

A 5 percent weakening of Malaysian Ringgit against the US Dollar and Euro at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

29.7 Interest rate risk

The Group's interest rate risk arises from its interest-bearing financial instruments that could impact fair value and future cash-flows due to fluctuation in market interest rates. The Group's objective on interest rate risk management is to achieve a balance in re-pricing risk and the optimisation of pricing whilst ensuring sufficient liquidity to meet funding needs.

Policies and Processes

Interest bearing financial assets are mainly temporary surpluses or funds held for liquidity purposes and are placed on short-term or on demand basis. Interest bearing financial liabilities are mixture of short term trade/credit facilities with re-pricing exposure, and long-term loans with fixed pricing. The Group constantly reviews its portfolio of interest bearing financial liabilities with the view to mitigate as much as possible its re-pricing risk taking into account the nature and requirement of its businesses, and availability from issuers of such financial liabilities.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group	
	2015 RM'000	**2014 RM'000**
Fixed rate instruments		
Financial assets	5,172	23,440
Financial liabilities	(83,495)	(42,850)
	(78,323)	(19,410)
Floating rate instruments		
Financial liabilities	(634,965)	(752,443)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.7 Interest rate risk (continued)

Interest rate risk sensitivity analysis (continued)

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 25 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Group	Profit or loss 25 bp increase RM'000	 25 bp (decrease) RM'000
2015		
Floating rate instruments	(1,587)	1,587
2014		
Floating rate instruments	(1,881)	1,881

29.8 Cash flow hedge

The Group entered into forward cash flow hedge of its expected proceeds/payments from/to accounts receivables and accounts payables.

The following depicts the expected cash flow streams associated with the hedges undertaken and period affecting profit or loss:

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000
2015				
Proceeds from accounts receivables				
- inflow	–	86,784	65,831	20,953
- outflow	(7,543)	(94,327)	(71,789)	(22,538)
Proceeds from accounts payables				
- inflow	432	23,437	23,437	–
- outflow	–	(23,005)	(23,005)	–

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.8 Cash flow hedge (continued)

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000
2014				
Proceeds from accounts receivables				
- inflow	–	84,930	66,285	18,645
- outflow	(5,741)	(90,671)	(70,053)	(20,618)
Proceeds from accounts payables				
- inflow	–	2,230	2,230	–
- outflow	(57)	(2,287)	(2,287)	–

During the year, net gain of RM733,000 (2014: loss of RM5,399,000) was recognised in the other comprehensive income. An ineffective net gain of RM384,639 (2014: RM461,325) was recognised in profit or loss during the year.

29.9 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and short-term borrowings approximate their fair value due to the relatively short term nature of these financial instruments.

The carrying amounts of the floating rate term loans and finance lease liabilities approximate fair values as they are subject to variable interest rates which in turn approximate the current market interest rates for similar loans at the end of the reporting period.

It was not practical to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices, inability to estimate fair value without incurring excessive costs and immaterial in the opinion of the Directors.

The fair values of the abovementioned financial assets and liabilities are as disclosed in the respective notes to the financial statements, together with the carrying amounts shown in the statements of financial position.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.9 Fair value of financial instruments (continued)

Other than those mentioned above, the table below analyses financial instruments carried at fair value and those not carried at fair value for which fair values are disclosed, together with their fair values and carrying amounts shown in the statements of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
Group	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**	**RM'000**	**RM'000**
2015										
Financial assets										
Available-for-sale	–	–	–	–	–	–	522	522	522	522
Redeemable Convertible Preference Shares	–	–	–	–	–	–	10,000	10,000	10,000	10,000
Forward exchange contracts	–	6,218	–	6,218	–	–	–	–	6,218	6,218
	–	6,218	–	6,218	–	–	10,522	10,522	16,740	16,740
Financial liabilities										
Forward exchange contracts	–	(23,173)	–	(23,173)	–	–	–	–	(23,173)	(23,173)
Fixed rate term loans	–	–	–	–	–	–	(66,943)	(66,943)	(66,943)	(66,903)
Finance lease liabilities	–	–	–	–	–	–	(16,777)	(16,777)	(16,777)	(16,592)
Long term payables	–	–	–	–	–	–	(47,775)	(47,775)	(47,775)	(47,775)
Long service leave liability	–	–	–	–	–	–	(6,348)	(6,348)	(6,348)	(6,348)
	–	(23,173)	–	(23,173)	–	–	(137,843)	(137,843)	(161,016)	(160,791)
Company										
Financial liabilities										
Long term payables	–	–	–	–	–	–	(37,439)	(37,439)	(37,439)	(37,439)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.9 Fair value of financial instruments (continued)

Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
2014										
Financial assets										
Available-for-sale	–	–	–	–	–	–	2,566	2,566	2,566	2,566
Redeemable Convertible Preference Shares	–	–	–	–	–	–	12,139	12,139	12,139	12,139
Forward exchange contracts	–	5,928	–	5,928	–	–	–	–	5,928	5,928
	–	5,928	–	5,928	–	–	14,705	14,705	20,633	20,633
Financial liabilities										
Forward exchange contracts	–	(17,128)	–	(17,128)	–	–	–	–	(17,128)	(17,128)
Fixed rate term loans	–	–	–	–	–	–	(33,340)	(33,340)	(33,340)	(34,181)
Finance lease liabilities	–	–	–	–	–	–	(8,750)	(8,750)	(8,750)	(8,669)
Long term payables	–	–	–	–	–	–	(52,142)	(52,142)	(52,142)	(52,142)
Long service leave liability	–	–	–	–	–	–	(2,886)	(2,886)	(2,886)	(2,886)
	–	(17,128)	–	(17,128)	–	–	(97,118)	(97,118)	(114,246)	(115,006)
Company										
Financial liabilities										
Long term payables	–	–	–	–	–	–	(525,296)	(525,296)	(525,296)	(525,296)

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.9 Fair value of financial instruments (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Derivatives

The fair value of forward exchange contracts and interest rate swaps is assessed using the quoted market price obtained from Reuters or licensed financial institutions.

Non-derivative financial liabilities

Fair value which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2014: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities. The valuation techniques in determining the fair values disclosed in Level 3 for the financial instruments not carried at fair value is discounted cash flows.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting year.

Interest rates used to determine fair value

	2015	2014
Fixed rate term loans	3.10% - 18.00%	3.10% - 18.00%
Finance lease liabilities		
- Fixed rate	1.88% - 6.00%	1.88% - 6.00%

30. CAPITAL MANAGEMENT

The Group's capital management objective is to ensure a strong and sustainable capital base that can support the current and future business needs of the Group.

In support of that, the Group aims to manage within the limit of existing debt to equity ratio (DER) covenant.

As at 31 December 2015, the Group recorded a DER at 0.27 (2014: 0.37) as compared to the financial covenants of not exceeding 1.50 (2014: 1.50) times. The Group is also required to maintain certain financial covenant ratios as disclosed in Note 16 to the financial statements.

	Group	
	2015	**2014**
	RM'000	**RM'000**
Total loans and borrowings (Note 16)	718,460	795,293
Total equity	2,709,695	2,157,761
DER	0.27	0.37

31. OPERATING SEGMENT

The Group's resources allocation is assessed on a quarterly basis or as needed basis in accordance to the business performance and requirements of the respective geographical's operating unit as reviewed and determined by the Group's Chief Operating Decision Maker (CODM) whom is also the Chief Executive Officer of the Group. Hence, segment information is presented by geographical locations that the Group operates in. The format of the geographical segments is based on the Group's operation management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Reporting on segmental profit, assets and liabilities include items directly attributable to geographical segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The segments are classified into geographical presence as follows:

Geographical segment	**Countries**
Asia & Oceania	Malaysia, Thailand, China, India, Singapore, Indonesia, Australia and Uzbekistan
Europe	British Virgin Islands, United Arab Emirates, Netherlands, Saudi Arabia, Italy, United Kingdom, Germany and Isle of Man
America	United States of America and Canada

31. OPERATING SEGMENT (CONTINUED)

Geographical segments

	Asia and Oceania		Europe		America		Consolidated	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Revenue	521,897	483,763	1,024,959	1,274,849	94,426	106,519	1,641,282	1,865,131
Cost of sales	(419,898)	(366,853)	(808,648)	(997,434)	(72,895)	(82,113)	(1,301,441)	(1,446,400)
Gross profit	101,999	116,910	216,311	277,415	21,531	24,406	339,841	418,731
Administration expenses and others	18,549	(60,338)	(178,893)	(181,975)	(13,754)	(8,538)	(174,098)	(250,851)
Operating profit	120,548	56,572	37,418	95,440	7,777	15,868	165,743	167,880
Add: Depreciation and amortisation	7,175	7,749	36,010	37,166	617	495	43,802	45,410
Segment profit	127,723	64,321	73,428	132,606	8,394	16,363	209,545	213,290
Share of profit/(loss) of equity-accounted investees, net of tax							(6,343)	465
Less: Depreciation and amortisation							(43,802)	(45,410)
							159,400	168,345
Finance costs							(36,636)	(53,092)
Finance income							1,371	2,996
Profit before tax							124,135	118,249
Segment assets	1,312,235	1,184,142	2,848,881	2,624,290	146,021	122,131	4,307,137	3,930,563
Segment liabilities	676,701	884,741	871,238	855,842	49,503	32,219	1,597,442	1,772,802
Capital expenditure	27,354	2,943	113,542	16,121	3,680	556	144,576	19,620
Depreciation and amortisation charged to income statements	7,175	7,749	36,010	37,166	617	495	43,802	45,410
Non-cash expenses/(income) other than depreciation and amortisation	3,430	10,455	4,102	6,892	–	–	7,532	17,347

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

32. SUBSIDIARIES

The principal activities of the subsidiaries, their places of incorporation and the interests of KNM Group Berhad are as follows:

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of the Company				
KNM Process Systems Sdn. Bhd.	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries	Malaysia	100	100
KNM International Sdn. Bhd.@	Provision of management, technical advisory, license and trademark services to international related companies and related international investments	Malaysia	100	100
KNM Capital Sdn. Bhd.@	Provision of funding and treasury services and all related functions	Malaysia	100	100
KNM Management Services Sdn. Bhd.	Provision of qualifying services under the overseas head quarters (OHQ) concept which includes management, treasury, financial advisory, technical support, marketing, business development and procurement and all related functions	Malaysia	100	100
KNM Renewable Energy Sdn. Bhd.@	Provision of process technology for the biofuels and seeds extraction plants, provision of turnkey services, including operation and maintenance services for biofuels and seeds extraction plants and related investments in the renewable energy industries	Malaysia	100	100
KNM Capital Labuan Limited	Provision of funding and treasury services and all related functions	Labuan	100	100

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of the Company (continued)				
Litwin Asia Pacific Sdn.Bhd.**	Dormant	Malaysia	51	51
Prestige International Ltd.	Provision of funding and treasury services and all related functions	Labuan	100	100
KNM HMS Energy Sdn. Bhd.**	Dormant	Malaysia	70	70
KNM Capital (PIC) Sdn. Bhd.^	Dormant	Malaysia	100	–
KNM Global (S) Pte Ltd.^	Dormant	Singapore	100	–
Splendid Investments Limited @	Dormant	Labuan	100	100
Subsidiaries of KNM Process Systems Sdn. Bhd.				
KNM OGPET (East Coast) Sdn. Bhd. @	Property investment	Malaysia	100	100
Duraton Engineering Sdn. Bhd. @	Provision of non-destructive testing services	Malaysia	100	100
Perwira Awan Sdn. Bhd.**	Property investment	Malaysia	100	100
KNM Technical Services Sdn. Bhd.	Provision of project management and technical services	Malaysia	100	100
Sumber Amantech Sdn. Bhd.	Provision of project management and technical services	Malaysia	100	100
KNM Exotic Equipment Sdn. Bhd. @	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries	Malaysia	100	100

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of KNM Process Systems Sdn. Bhd. (continued)				
KNM Europa BV *	Investment holding, financing, marketing and business development services to the related companies of KNM Group in Europe	Netherlands	100	100
KNM Pty. Ltd. *	Design, manufacture, sale and service of heat exchange systems	Australia	–	100
KNM BORSIG Services Sdn. Bhd. @	Contractor for oil and gas industries and provision of technical services	Malaysia	100	100
Deutsche KNM GmbH *	Investment holding	Germany	100	100
KNM OGPET (Sabah) Sdn. Bhd. **@	Investment holding	Malaysia	80	80
KNM-DP Fabricators Sdn. Bhd. **@	Dormant	Malaysia	86	86
Subsidiary of KNM Renewable Energy Sdn. Bhd.				
Global Green Energy Corporation Ltd. **@	Investment holding	Isle of Man	100	–
Subsidiary of KNM BORSIG Services Sdn. Bhd.				
BORSIG Services Australia Pty. Ltd. ^	Contractor for the oil and gas industry and provision of technical and maintenance services	Australia	100	–

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of KNM Europa BV				
FBM Hudson Italiana SpA *	Design and manufacture of air-cooled heat exchangers, specialty shell and tube heat exchangers and process gas waste heat boilers for the oil, gas, petrochemical and desalination industries	Italy	100	100
FBM Icoss S.r.l *	Design and construction of fully welded plate type heat exchanger plates, bundle exchangers and jacketed pressure vessels for different fields such as chemical, petrochemical, textile pharmaceutical, food industry, aerospace and research industries	Italy	100	100
KNM Corporation *@	Investment holding	Canada	100	100
KNM Project Services Limited **@	Project management and services and provision of process technology for oil and gas, biomass, biofuels, waste to energy and power plants as well as provision of turnkey services including operation and maintenance services	United Kingdom	100	100
Subsidiaries of KNM Corporation				
KNM Industries Inc *@	An asset holding company and shall own the land, manufacturing plant and machinery in relation to the Group's manufacturing facility in Edmonton, Alberta, Canada	Canada	100	100

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of KNM Corporation (continued)				
KNM Process Equipment Inc *@	Design, manufacture, procurement and manufacturing of process equipment, including without limitation pressure vessels, reactors, column and towers, drums, heat exchangers, air fin coolers, process gas waste heat boilers, specialised shell, tube heat exchangers, condensers, spheres, process tanks, mounded bullets, process skid packages and turnkey storage facilities for the oil, gas, petrochemicals and mineral processing industries in Canada and the North America region	Canada	100	100
KPS Inc *@	Investment holding	Canada	100	100
Subsidiaries of KPS Inc				
KPS Technology & Engineering LLC *@	Provision of sulphur removal and recovery related services to clients in the oil, gas and energy/ power industries in relation to sulphur removal and recovery technology	United States of America	94	94
KPS Technology Group LLC *	Provision of sulphur removal and recovery related services to clients in the oil, gas and energy/power industries in relation to sulphur removal and recovery technology	United States of America	100	100
Subsidiary of KNM Process Equipment Inc				
1840355 Alberta Ltd. ^	Dormant	Canada	100	–

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of KNM Pty Ltd				
W. E. Smith Engineering Pty. Ltd. *	Thermal and mechanical design, drafting, manufacture of shell and tube heat exchangers, vessels, columns and feed water heaters	Australia	–	100
HEA Australia Pty. Ltd. *	Manufacture of air-cooled, shell and tube, and plate heat exchangers, vessels and columns	Australia	–	100
PT Heat Exchangers Indonesia *	Manufacture of air-cooled, shells, tube plates, frame heat exchangers, vessels and columns	Indonesia	–	100
Subsidiary of KNM Exotic Equipment Sdn. Bhd.				
KMK Power Sdn. Bhd. @	Investment holding	Malaysia	100	100
Subsidiary of Deutsche KNM GmbH				
BORSIG Beteiligungs-verwaltungsgesell-schaft mbH *	Investment holding	Germany	100	100
Subsidiary of BORSIG Beteiligungsverwaltungsgesellschaft mbH				
BORSIG GmbH *	Advisory and administration services as well as acquisition of and holding shares in other companies on behalf and or its own account, in particular for and to companies of the BORSIG Group	Germany	100	100

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of BORSIG GmbH				
BORSIG Process Heat Exchanger GmbH *	Processing, planning, fabrication and distribution of and the trading with machines, assets, apparatuses and miscellaneous components, particularly for generating plant, petrochemical and chemical industries	Germany	100	100
BORSIG ZM Compression GmbH *	System engineering, industrial fabrication, assembly services as well as the sale of machines and constructions of compressors, containers, silo and conveyor technique	Germany	100	100
BORSIG Membrane Technology GmbH *	Processing, planning, fabrication and distribution of and trading with machines and construction of apparatuses and miscellaneous components in the field of membrane technique	Germany	100	100
BORSIG Service GmbH *	Provides installation, maintenance and other industrial services of machines and construction of apparatuses and other components	Germany	100	100
BORSIG Boiler Systems GmbH *	Planning, delivery, installation, and implementation of constructions for generating plants as well as provision of maintenance and other services for such constructions	Germany	100	100
BORSIG Boiler Systems Sdn. Bhd. @	Sales and marketing, design, fabrication and manufacturing of high capacity industrial boilers, heat recovery steam generators and waste heat boiler for oil, gas, petrochemicals, minerals processing and energy industries	Malaysia	100	100

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiary of BORSIG Membrane Technology GmbH				
GMT Membrantechnik GmbH *	Development, processing and distribution of membranes, membrane modules and membrane components	Germany	51	51
Subsidiary of BORSIG ZM Compression GmbH				
BORSIG Compressor Parts GmbH *	Development, production and distribution of valves, compressor parts, monitoring systems for compressors, provision of maintenance and repair works of compressors and other assets	Germany	100	100
Subsidiaries of KNM International Sdn. Bhd.				
KNM Overseas (China) Sdn. Bhd. @	Investment holding and provision of management and consultancy services	Malaysia	100	100
KNM Global Ltd.^	Provision of management, procurement, business development, technical advisory and marketing services	British Virgin Islands	100	100
PT KPE Industries **@	An assets holding company and shall own the land, manufacturing plant and machinery in relation to the Group's intended manufacturing facility at the Kabil Industrial Estate in Batam, Indonesia	Indonesia	100	100

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiaries of KNM International Sdn. Bhd. (continued)				
Saudi KNM Ltd. **@	Production of platforms, towers, columns, pressure pipe, large barrels, boilers, thermal transformers, large tanks and cooling fans	Saudi Arabia	51	51
FBM - KNM FZCO *	Provision of manufacture of air cooled heat exchangers, shell and Emirates tube heat exchangers, process gas waste heat recovery systems, heavy duty heat exchangers, columns, towers, reactors and other pressure vessels for the oil, gas, petrochemicals and desalination industries	United Arab Emirates	100	100
CNI Engineering & Construction Malaysia Sdn. Bhd. (formerly known as KNM-CIW Sdn. Bhd.)	Dormant	Malaysia	70	70
Verwater KNM Sdn. Bhd. **	Involved in the business of relocating and jacking of tank catalyst change-out and chemical cleaning work	Malaysia	100	50
Kimma Thai Co., Ltd. **@	Investment holding	Thailand	49	49
Subsidiary of KMK Power Sdn. Bhd.				
Poplar Investments Limited **	Property investment	Isle of Man	100	100

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

32. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2015 %	2014 %
Subsidiary of Kimma Thai Co., Ltd.				
KNM Projects (Thailand) Co., Ltd. **@	Operate the business of providing the services relating to the arrangement of design, engineering, procurement, construction testing and other kinds of services relating to oil, gas, petrochemical, minerals, biofuel and energy industries	Thailand	74	74
Subsidiary of KNM Overseas (China) Sdn. Bhd.				
KNM Special Process Equipment (Changshu) Co., Ltd. **	Design, manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries within the China market	China	100	100
Subsidiary of Global Green Energy Corporation Ltd.				
Peterborough Green Energy Ltd. **@	Develop, build, own and operate the 18MW (Phase 1) Biomass Waste to Energy Power Plant Project in Peterborough, United Kingdom	United Kingdom	100	–

For financial year 2015:

- * Audited by a member firm of KPMG.
- ** Audited by another firm of accountants.
- @ The financial statements of these subsidiaries are prepared on a going concern basis as the Group will provide the necessary financial support, as appropriate.
- ^ Consolidated using management accounts as at 31 December 2015.

32. SUBSIDIARIES (CONTINUED)

Kimma Thai Co., Ltd

Although the Group owns less than half of the ownership interest in Kimma Thai Co., Ltd. and less than half of the voting power of this entity, the Directors have determined that the Group controls this entity. By virtue of an agreement with its other investor, the Group has de facto control over Kimma Thai Co., Ltd. on the basis that the Group has the ability to direct the activities of Kimma Thai Co., Ltd. that significantly affect the return of Kimma Thai Co., Ltd.

CNI Engineering & Construction Malaysia Sdn. Bhd. ("CNI")

The Group owns 70% of shareholdings of CNI Engineering & Construction Malaysia Sdn. Bhd. ("CNI") and the remaining 30% voting rights are held by third party.

Notwithstanding the Group having majority voting rights, there are substantive rights conferred to the third party pursuant to the shareholders agreement. These rights, if exercised, could prevent the Group from having practical ability to unilaterally direct the relevant activities of CNI.

Pursuant to the shareholders agreement, the Group does not have full control over CNI in the context of MFRS 10 but has joint control in CNI. Accordingly, CNI has been classified as a joint venture of the Group in accordance with MFRS 11. This resulted in CNI being equity-accounted instead of consolidated in the current year.

Verwater KNM Sdn. Bhd. ("VKSB")

On 1 September 2015, the Group via its wholly-owned subsidiary, KNM International Sdn. Bhd. ("KNMI"), acquired the remaining 375,000 ordinary shares (representing 50% equity interest) from the other joint venture partner, Paul Antonius Verwater, for a total consideration of RM1.00.

As at reporting date, the Group holds 100% equity interest in VKSB and has recognised VKSB as a subsidiary. This resulted in VKSB being consolidated instead of equity-accounted after the acquisition.

33. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2015 RM'000	2014 RM'000
Less than one year	532	433
More than one year	2,793	108
	3,325	541

The Group has operating leases for land used to build office space and factory building. The lease is for initial 7 years, with options to renew the lease after expiry of the lease period.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

34. SIGNIFICANT EVENTS DURING THE YEAR

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

34.2 On 16 February 2015, the Company's subsidiary, KNM Process Equipment Inc. ("KNMPEI"), fully subscribed and completed its subscription of One (1) Class "C" ordinary share in relation to the incorporation of 1840355 Alberta Ltd. ("Alberta") for a total cash consideration of CAD1.00 (equivalent to RM2.87).

34.3 On 12 March 2015, the Company's subsidiary, KNM Renewable Energy Sdn. Bhd. ("KNMRE") entered into a Share Purchase Agreement ("SPA") with FE Global/Asia Clean Energy Services Fund L.P. ("FE GLOBAL"), FEGACE Asia Sub-Fund, L.P. ("FEGACE"), and Global Clean Energy Corp. SPC ("GCEC") (collectively referred to as the "Vendors") for the acquisition of the Vendors' entire equity interest in ABL Bio-Fuels Limited ("ABL") and Asia Biofuels II Ltd. ("ABL II") [collectively referred to as the "ABL Group" which, owns a combined 72% equity interest in Impress Ethanol Co., Ltd. ("IEL") and 49% equity interest in Impress Farming Co. Ltd. ("IFL")], for a total consideration of USD24,000,000 (equivalent to RM88,488,000) (the "Consideration").

Subsequently on 29 June 2015, the parties mutually agreed to inter alia reduce the Consideration to USD21,600,000 ("Revised Consideration") and the Revised Consideration shall be satisfied wholly in cash. The said acquisition is expected to be completed by the second quarter of 2016.

34.4 On 16 March 2015, the Company's subsidiary, KNMPS entered into a Joint Venture Agreement ("JVA") with Hansol EME Co., Ltd. ("Hansol") to *inter alia* set up a joint venture company called Hansol KNM Greentech Sdn. Bhd. ("HKG") on a 60% (Hansol) : 40% (KNMPS) basis.

34.5 On 22 April 2015, the Company's subsidiary, Borsig Membrane Technology GmbH disposed its entire 14.13% equity interest (comprising of 4 ordinary shares) in PolyAn Gesellschaft zur Herstellung von Polymeren für Spezielle Anwendungen und Analytik mbH to Fridjof Andreas Bruno Lechhart and Dr. Karl-Ulrich Schellhaas for a total cash consideration of EUR30,650 (equivalent to RM128,117).

34.6 On 19 June 2015, the Company's subsidiary, Splendid Investments Limited ("Splendid"), 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 the Company and as at to-date, no notes have been issued under the Programme.

34.7 On 3 July 2015, KNMRE incorporated a wholly-owned subsidiary, Global Green Energy Corporation Ltd. ("GGECL"), subscribed for 1 ordinary share of nominal value of GBP1.00 (equivalent to RM5.87).

34.8 On 6 July 2015, Green Energy Corporation Ltd. ("GGECL") incorporated a wholly-owned subsidiary, Peterborough Green Energy Ltd. ("PGEL"), subscribed for 1 ordinary share of nominal value of GBP1.00 only (equivalent to RM5.87).

34.9 On 11 August 2015, the Company invested and subscribed for 29 ordinary shares of RM1.00 each representing 29% equity stake in Konsortium AHHK Sdn. Bhd. (formerly known as Ultra Cendana Sdn. Bhd.) ("KAHHK") for a total cash consideration of RM29.00.

34. SIGNIFICANT EVENTS DURING THE YEAR (CONTINUED)

34.10 On 1 September 2015, the Company's wholly-owned subsidiary, KNM International Sdn. Bhd. ("KNMI") entered into a Shares Sale Agreement ("SSA") with Paul Antonius Verwater (the "Vendor") to acquire *inter alia* the Vendor's entire shareholding of 375,000 ordinary shares (representing 50% equity interest) in Verwater KNM Sdn. Bhd. ("VKSB") for a total cash consideration of RM1.00.

34.11 On 14 September 2015, the Company's subsidiary, KNM Borsig Services Sdn. Bhd. ("KNMBS"), fully completed its investment/subscription of One (1) ordinary share in relation to the incorporation of Borsig Services Australia Pty. Ltd. ("BSAPL") for a total cash consideration of AUD1.00 (equivalent to RM3.07).

34.12 On 12 November 2015, the Company completed its Private Placement exercise upon full subscription, listing and quotation of the 193,893,700 Placement Shares at RM0.50 each on the Main Market of Bursa Securities.

35. EVENTS SUBSEQUENT TO YEAR END

35.1 On 9 March 2016, the Company's subsidiary, KNM Process Systems Sdn. Bhd. ("KNMPS") entered into a Joint Venture Agreement with Ho Hup Construction Company Berhad ("Ho Hup") to incorporate a joint venture company called "KHH Infrastructures Sdn. Bhd." ("KHHI") on a 50% (KNMPS) : 50% (Ho Hup) basis; whereby KNMPS has invested and subscribed 50 ordinary shares of RM1.00 each representing 50% equity stake in KHHI for a total cash consideration of RM50.00.

36. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements are as follows:

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Total retained earnings of the Company and its subsidiaries				
- Realised	512,894	557,566	60,192	53,893
- Unrealised	(151,729)	(170,131)	(170)	68
	361,165	387,435	60,022	53,961
Total share of retained earnings of associates				
- Realised	(6)	(6)	–	–
Total share of retained earnings of joint ventures				
- Realised	(8,530)	270	–	–
- Unrealised	1,007	126	–	–
	353,636	387,825	60,022	53,961
Add: Consolidation adjustments	653,005	569,289	–	–
Total retained earnings	1,006,641	957,114	60,022	53,961

The determination of realised and unrealised profits is based on Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 48 to 141 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 36 on page 142 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....
Dato' Ab. Halim bin Mohyiddin

....
Lee Swee Eng

Kuala Lumpur,

6 April 2016

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, **Tan Koon Ping**, the officer primarily responsible for the financial management of KNM Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 48 to 142 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 6 April 2016.

....
Tan Koon Ping

Before me:

INDEPENDENT AUDITORS' REPORT
to the members of KNM Group Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of KNM Group Berhad, which comprise the statements of financial position as at 31 December 2015 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 48 to 141.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 in Malaysia.

Emphasis of matters

Without qualifying our opinion, we draw attention to Note 9 and Note 22 to the financial statements. The projected future taxable profit supporting the recognition of the deferred tax assets is subject to significant risk and uncertainties. In the projection of future taxable profits, the assumptions used included future events that may not necessarily occur. Actual results could be significantly different from the Directors' estimate of future profitability since anticipated events may not occur as expected and the variation could be material. Hence uncertainties exist and any significant variation in these assumptions may result in a change in the extent of the deferred tax assets / tax benefits recognised in the statements of financial position and statements of profit or loss.

INDEPENDENT AUDITORS' REPORT
to the members of KNM Group Berhad
(cont'd)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 32 to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain material qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 36 on page 142 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards and International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Tai Yoon Foo
Approval Number: 2948/05/16(J)
Chartered Accountant

Petaling Jaya,

6 April 2016

LIST OF TOP 10 MAJOR PROPERTIES
owned by the Group as at 31 December 2015

	Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of the Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
1.	Plot U13, Storey's Bar Road Peterborough United Kingdom	Vacant land	Freehold	331,800 m^2	–	–	06/02/2015	168,638
2.	Via Valtrighe, 5 & 6 24030 Terno d'Isola (BG);	(i) Fabrication plant	–	–	48,582 m^2	1st phase – 49 years 2nd phase – 24 years	31/12/2014	132,737
		(ii) Staff house	–	–	396 m^2	55 years	31/12/2014	
		(iii) Staff house	–	–	120 m^2	34 years	31/12/2014	
		(iv) Agricultural area	–	22,595 m^2	–	–	31/12/2014	
		(v) Industrial area	–	194,660 m^2	–	–	31/12/2014	
	Via Italia 24030 Mapello (BG), Italy	(vi) Reserved area	–	3,225 m^2	–	–	31/12/2014	
3.	Lot 105 & 106 Jalan Gebeng 1/6 Gebeng Industrial Estate 26080 Kuantan Pahang Darul Makmur Malaysia	(i) Industrial land	Leasehold (66 years) Expiring on 01/06/2064	36,420 m^2	–	–	31/12/2014	60,055
		(ii) Fabrication plant and office building	–	–	18,778 m^2	15 years	31/12/2014	
4.	Jiangsu Province Changshu Economic Development Area - "Chang Rang Guo Yong (2002) Zi No. 192";	(i) Industrial land	Leasehold (50 years) Expiring on 09/07/2052	33,537 m^2	–	–	10/12/2014	49,295
	"Shu Fangquanzheng Bixi Zi No. 10001641";	(ii) Fabrication plant and office building	Leasehold (50 years) Expiring on 09/07/2052	–	17,012 m^2	14 years	9/12/2014	
	"Chang Guo Yong (2009) Zi No. 04329";	(iii) Industrial land	Leasehold (50 years) Expiring on 07/05/2057	33,333 m^2	–	–	10/12/2014	
	"Shu Fangquanzheng Bixi Zi No. 10001644", China	(iv) Fabrication plant and office building	Leasehold (50 years) Expiring on 07/05/2057	–	23,818 m^2	9 years	9/12/2014	

LIST OF TOP 10 MAJOR PROPERTIES
owned by the Group as at 31 December 2015
(cont'd)

Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of the Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
5. 6204-46 Ave Tofield, AB TOB 4JO Canada	(i) Industrial land	–	457,299 m^2	–	–	19/12/2014	46,619
	(ii) Fabrication plant and office building	–	–	9,862 m^2	10 years	19/12/2014	
6. Lot 1863, Jalan Pelabuhan 2 Kuantan Port 26080 Kuantan Pahang Darul Makmur Malaysia	Fabrication plant and office building	–	–	25,730 m^2	11 years	31/12/2014	39,587
7. Jebel Ali Free Zone Dubai, UAE	Fabrication plant and office building	Leasehold (Renewable every 10 years) Expiring on 31/10/2020	90,000 m^2	23,000 m^2	24 years	23/11/2014	39,271
8. Kawasan Industri Terpadu Kabil Jl. Hang Kesturi I Kav. A21 Kelurahan Batu Besar Kecamatan Nongsa Batam 29467 Indonesia	(i) Industrial land	Leasehold (30 years) Expiring on 13/08/2036	82,824 m^2	–	–	11/12/2014	35,089
	(ii) Fabrication plant and office building	–	–	20,135 m^2	9 years	11/12/2014	
9. Seiferitzer Allee 26;	(i) Fabrication plant and office building	Leasehold (66 years) Expiring on 26/07/2071	12,000 m^2	5,093 m^2	10 years/ 8 years (due to extension of the building)	18/12/2014	32,506
	(ii) Fabrication plant and office building (extension on adjacent land)	Leasehold (66 years) Expiring on 18/02/2075	10,422 m^2	5,300 m^2	7 years	18/12/2014	
	(ii) Extension on adjacent land (without any buiding)	Leasehold (66 years) Expiring on 31/05/2078	16,121 m^2	–	–	18/12/2014	
Selferitzer Allee 27 Meerane, Germany	(iv) Fabrication plant and office building	–	14,757 m^2	2,100 m^2	22 years	18/12/2014	

LIST OF TOP 10 MAJOR PROPERTIES
owned by the Group as at 31 December 2015
(cont'd)

Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of the Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
10. Lot 208, Jalan PBR 19 and Lots 2835 & 2836, Jalan PBR 22 Bukit Rambai Industrial Estate Tanjong Minyak, Melaka Malaysia	(i) Industrial land (Lot 2835)	Leasehold (99 years) Expiring on 28/05/2094	5,857 m^2	–	–	31/12/2014 }	25,632
	(ii) Industrial land (Lot 2836)	Leasehold (99 years) Expiring on 28/05/2094	5,042 m^2	6,612 m^2	–	31/12/2014 }	
	(iii) Industrial land (Lot 2837)	Leasehold (99 years) Expiring on 28/05/2094	17,769 m^2	–	–	31/12/2014 }	
	(iv) Fabrication plant and office building (Lot 2835 & 2836)	–	–	6,369 m^2	12 years	31/12/2014 }	
	(v) Fabrication plant and office building (Lot 2837)	–	–	9,879 m^2	24 years	31/12/2014 }	

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016

A) ANALYSIS OF SHAREHOLDINGS

Authorised Share Capital	:	RM2,500,000,000.00
Issued and Paid-up Share Capital	:	RM1,078,066,321.00 divided into 2,156,132,642 ordinary shares of RM0.50 each*
Class of Shares	:	Ordinary shares of RM0.50 each
Voting Rights	:	On show of hand - 1 vote for each shareholder
	:	On a poll - 1 vote for each share held

Note:
* *Inclusive of 23,311,275 treasury shares*

DISTRIBUTION OF SHAREHOLDINGS (as per Record of Depositors as at 31 March 2016)

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
Less than 100	1,458	4.01	67,587	Negligible
100 to 1,000	4,363	12.00	2,722,969	0.13
1,001 to 10,000	17,170	47.23	84,173,560	3.95
10,001 to 100,000	11,645	32.03	374,505,225	17.56
100,001 to less than 5% of issued shares	1,721	4.73	1,551,352,026	72.74
5% and above of issued shares	1	Negligible	120,000,000	5.62
TOTAL	**36,358**	**100.00**	**2,132,821,367^**	**100.00**

Note:
^ *Excluding 23,311,275 treasury shares*

THIRTY LARGEST SHAREHOLDERS (as per Record of Depositors as at 31 March 2016)

No.	Name of Shareholders	No. of Shares Held	%#
1.	MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd (MGN-IMS0005M)	120,000,000	5.62
2.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	102,377,042	4.80
3.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 14)	51,332,800	2.41
4.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (F Templeton)	37,739,000	1.77
5.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 9)	31,448,600	1.47
6.	HSBC Nominees (Asing) Sdn Bhd - Morgan Stanley & Co. International Plc (Firm A/C)	27,151,320	1.27
7.	Citigroup Nominees (Asing) Sdn Bhd - UBS AG	26,984,366	1.27
8.	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for CIMB Islamic Dali Equity Theme Fund	24,634,940	1.15

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016
(cont'd)

THIRTY LARGEST SHAREHOLDERS (CONT'D)

No.	Name of Shareholders	No. of Shares Held	%#
9.	DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund PLD2 for Polunin Emerging Markets Small Cap Fund, LLC	21,998,760	1.03
10.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Dimensional Emerging Markets Value Fund	21,555,463	1.01
11.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (RHB Inv)	19,383,000	0.91
12.	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tegas Klasik Sdn Bhd (Margin)	18,841,090	0.88
13.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	18,232,951	0.85
14.	Citigroup Nominees (Asing) Sdn Bhd - Goldman Sachs International	18,034,000	0.85
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd - Deutsche Bank AG London	17,621,213	0.83
16.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Pheim)	16,591,800	0.78
17.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)	16,494,875	0.77
18.	MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng (MGN-LSE0004M)	15,580,000	0.73
19.	Citigroup Nominees (Asing) Sdn Bhd - Merrill Lynch International	14,667,494	0.69
20.	Cartaban Nominees (Asing) Sdn Bhd - Exempt An for State Street Bank & Trust Company (West CLT OD67)	14,649,015	0.69
21.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Bank Julius Baer & Co. Ltd. (Singapore BCH)	13,523,700	0.63
22.	Amsec Nominees (Tempatan) Sdn Bhd - AmTrustee Berhad for CIMB Dali Equity Growth Fund (UT-CIMB-DALI)	13,133,000	0.62
23.	Affin Hwang Nominees (Asing) Sdn Bhd - Pledged Securities Account for Aveda Assets Capital Inc.	12,850,000	0.60
24.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for DFA Emerging Markets Small Cap Series	12,725,780	0.60
25.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (JPMelab AIF APG)	12,675,160	0.59
26.	DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund PLD1 for Polunin Developing Countries Fund, LLC	12,386,780	0.58

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016
(cont'd)

THIRTY LARGEST SHAREHOLDERS (CONT'D)

No.	Name of Shareholders	No. of Shares Held	%#
27.	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (RHB Inv)	12,331,480	0.58
28.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	12,095,805	0.57
29.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Caceis Bank Luxembourg (CLT ACCT-DTT)	11,731,181	0.55
30.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Affin-Hwg)	11,443,760	0.54
TOTAL		**760,214,375**	**35.64**

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS
(as per Register of Substantial Shareholders of the Company as at 31 March 2016)

	No. of Shares Held in KNM Group Berhad			
Name of Shareholders	**Direct**	**%#**	**Indirect**	**%#**
Inter Merger Sdn Bhd	247,287,551	11.59	70,000,000[a]	3.28
Employees Provident Fund Board	123,133,120	5.77	–	–
Ir Lee Swee Eng	37,408,838	1.75	415,544,859[b]	19.48
Gan Siew Liat	9,045,000	0.42	415,544,859[c]	19.48

DIRECTORS' INTERESTS IN SHARES IN KNM GROUP BERHAD AND RELATED CORPORATION
(as per Register of Directors' Shareholdings of the Company as at 31 March 2016)

	No. of Shares Held in KNM Group Berhad			
Name of Directors	**Direct**	**%#**	**Indirect**	**%#**
Dato' Ab Halim bin Mohyiddin	2,452,500	0.11	–	–
Ir Lee Swee Eng	37,408,838	1.75	415,544,859[b]	19.48
Dato' Dr Khalid bin Ngah	–	–	–	–
Dato' Sri Adnan bin Wan Mamat	–	–	–	–
Soh Yoke Yan	–	–	120,000[e]	0.01
Gan Siew Liat	9,045,000	0.42	415,544,859[c]	19.48
Chew Fook Sin	4,303,140	0.20	23,318,058[d]	1.09

	Initial Capital Contribution KPS Technology & Engineering LLC			
Name of Director	**Direct**	**%**	**Indirect**	**%**
Ir Lee Swee Eng	USD100,000	5.56	USD1,700,000[f]	94.44

Notes:

\# *Percentage interest is based on the total ordinary shares of 2,132,821,367 (excluding 23,311,275 treasury shares held as at 31 March 2016).*

a *Deemed interested by virtue of Inter Merger Sdn Bhd's ("IMSB") financing transaction with Credit Suisse International.*

b *Deemed interested by virtue of his indirect interest in IMSB, direct interest in Tegas Klasik Sdn Bhd ("TKSB"), direct interest in Aveda Assets Capital Inc. ("Aveda") and interest of his children in KNM.*

c *Deemed interested by virtue of her indirect interest in IMSB and interest of her spouse in TKSB, Aveda and interest of her children in KNM.*

d *Deemed interested by virtue of his direct interest in TKSB, and interest of his spouse and children in KNM.*

e *Deemed interested by virtue of the interest of her spouse in KNM.*

f *Deemed interested by virtue of his direct and indirect interests in KNM.*

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016
(cont'd)

B) ANALYSIS OF WARRANTHOLDINGS

i) Warrants 2012/2017 (Warrant A) : 517,675,629 Warrants A at an exercise price of RM0.98 each
Maturity : 15 November 2017

DISTRIBUTION OF WARRANTHOLDINGS (as per Record of Depositors as at 31 March 2016)

Range of Warrantholdings	No. of Warrantholders	%	No. of Warrants A	%#
Less than 100	918	8.44	46,834	0.01
100 to 1,000	1,907	17.53	947,448	0.18
1,001 to 10,000	4,402	40.47	15,049,644	2.91
10,001 to 100,000	2,872	26.40	94,175,479	18.19
100,001 to less than 5% of issued warrants	778	7.15	295,666,206	57.11
5% and above of issued warrants	1	0.01	111,790,018	21.60
TOTAL	**10,878**	**100.00**	**517,675,629**	**100.00**

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2016)

No.	Name of Warrantholders	No. of Warrants Held	%#
1.	Inter Merger Sdn Bhd	111,790,018	21.59
2.	Kok Bee Chuan	7,500,000	1.45
3.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	7,264,368	1.40
4.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng	6,578,569	1.27
5.	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tegas Klasik Sdn Bhd (Margin)	6,332,149	1.22
6.	Mohd Annuar Choon bin Abdullah	4,986,088	0.96
7.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 1)	3,861,317	0.75
8.	CIMB Group Nominees (Asing) Sdn Bhd - Exempt An for DBS Bank Ltd (SFS-PB)	3,739,341	0.72
9.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Bank Julius Baer & Co. Ltd. (Singapore BCH)	3,734,034	0.72
10.	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng (Margin)	3,632,147	0.70
11.	Cartaban Nominees (Tempatan) Sendirian Berhad - RHB Trustees Berhad for SP Tactical Investment Fund	3,200,000	0.62

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016
(cont'd)

THIRTY LARGEST WARRANTHOLDERS (CONT'D)

No.	Name of Warrantholders	No. of Warrants Held	%#
12.	Md Nor bin Mansor	3,035,882	0.59
13.	Mok Ching Yam	2,971,894	0.57
14.	Kenanga Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lau Kah Chiong	2,529,600	0.49
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd - BNYM SA/NV for Allchurches Investment Management Services Ltd	2,382,352	0.46
16.	Tan Chin Lin	2,329,411	0.45
17.	Cimsec Nominees (Tempatan) Sdn Bhd - CIMB Bank for Tee Geok Poh (MY2016)	2,223,529	0.43
18.	Gan Siew Liat	2,222,205	0.43
19.	Chen Po Hsiung	2,117,647	0.41
20.	Kenanga Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tan Tuan Tien	2,117,647	0.41
21.	Ng Chee Keong	2,011,764	0.39
22.	Lee Kok Chuan	2,000,000	0.39
23.	Lok Kwee Reng	2,000,000	0.39
24.	Yeo Hock Kim	2,000,000	0.39
25.	Yeu Chian Kim	2,000,000	0.39
26.	Ismail bin Mat Ali	1,730,588	0.33
27.	Yin Yit Fun	1,650,011	0.32
28.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)	1,641,652	0.32
29.	Foong Hong Chuen	1,630,588	0.31
30.	Chew Fook Sin	1,618,570	0.31
TOTAL		**202,831,371**	**39.18**

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016
(cont'd)

ii) Warrants 2015/2020 (Warrant B) : 161,578,504 Warrants B at an exercise price of RM1.00 each
Maturity : 21 April 2020

DISTRIBUTION OF WARRANTHOLDINGS (as per Record of Depositors as at 31 March 2016)

Range of Warrantholdings	No. of Warrantholders	%	No. of Warrants B	%^
Less than 100	577	6.05	26,935	0.02
100 to 1,000	4,654	48.76	2,283,330	1.41
1,001 to 10,000	3,293	34.50	10,905,689	6.75
10,001 to 100,000	819	8.58	27,757,343	17.18
100,001 to less than 5% of issued warrants	200	2.10	96,896,055	59.97
5% and above of issued warrants	1	0.01	23,709,152	14.67
TOTAL	**9,544**	**100.00**	**161,578,504**	**100.00**

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2016)

No.	Name of Warrantholders	No. of Warrants Held	%^
1.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	23,709,152	14.67
2.	Affin Hwang Nominees (Asing) Sdn Bhd - Pledged Securities Account for Aveda Assets Capital Inc.	6,425,000	3.98
3.	Ngan Teng Han	3,806,000	2.36
4.	Cartaban Nominees (Tempatan) Sendirian Berhad - RHB Trustees Berhad for SP Tactical Investment Fund	2,689,500	1.66
5.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 1)	2,511,250	1.55
6.	Citigroup Nominees (Asing) Sdn Bhd - UBS AG	2,306,993	1.43
7.	Citigroup Nominees (Tempatan) Sdn Bhd - Exempt An for AIA Bhd.	2,306,340	1.43
8.	Alliancegroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Lian Seng (800394)	2,300,000	1.42
9.	Md Nor bin Mansor	2,278,000	1.41
10.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng	2,226,500	1.38
11.	Cimsec Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Teo Bok Yu (Muar-CL)	1,869,700	1.16
12.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Peng Heng (E-TSA)	1,850,000	1.15

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016
(cont'd)

THIRTY LARGEST WARRANTHOLDERS (CONT'D)

No.	Name of Warrantholders	No. of Warrants Held	%^
13.	DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund PLD2 for Polunin Emerging Markets Small Cap Fund, LLC	1,833,230	1.13
14.	HSBC Nominees (Asing) Sdn Bhd - Morgan Stanley & Co. International Plc (Firm A/C)	1,755,960	1.09
15.	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for AMB Value Trust Fund (4249)	1,480,000	0.92
16.	Chok Su Sang	1,320,000	0.82
17.	Ong Yew Beng	1,300,000	0.80
18.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Hon Kwong Yew (M09)	1,250,000	0.77
19.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Bank Julius Baer & Co. Ltd. (Singapore BCH)	1,211,850	0.75
20.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lai Ee Fong (E-TSA)	1,200,000	0.74
21.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)	1,154,258	0.71
22.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (JPMelab AIF APG)	1,053,580	0.65
23.	Christopher Ling Siew Ming	1,007,800	0.62
24.	Aslina binti Mohd Islam	1,000,000	0.62
25.	Lim Chin Kiong	1,000,000	0.62
26.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tang Sing Ling	1,000,000	0.62
27.	Tan Tong Seng	1,000,000	0.62
28.	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tegas Klasik Sdn Bhd (Margin)	950,000	0.59
29.	HLB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Ooi Choi Kiat	910,200	0.56
30.	DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund PLD1 for Polunin Developing Countries Fund, LLC	903,700	0.56
TOTAL		**75,609,103**	**46.79**

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2016
(cont'd)

DIRECTORS' INTERESTS IN WARRANTS IN KNM GROUP BERHAD
(as per Register of Directors' Warrantholdings of the Company as at 31 March 2016)

	No. of Warrants Held in KNM Group Berhad							
	Warrant A				Warrant B			
Name of Directors	**Direct**	**%#**	**Indirect**	**%#**	**Direct**	**%^**	**Indirect**	**%^**
Dato' Ab Halim bin Mohyiddin	721,322	0.14	–	–	204,375	0.13	–	–
Ir Lee Swee Eng	10,210,716	1.97	128,541,827[a]	24.83	2,569,598	1.59	32,583,340[d]	20.17
Dato' Dr Khalid bin Ngah	–	–	–	–	–	–	–	–
Dato' Sri Adnan bin Wan Mamat	–	–	–	–	–	–	–	–
Soh Yoke Yan	–	–	–	–	–	–	10,000[e]	0.01
Gan Siew Liat	2,222,205	0.43	128,541,827[b]	24.83	874,375	0.54	32,583,340[f]	20.17
Chew Fook Sin	1,618,570	0.31	6,858,251[c]	1.32	358,595	0.22	1,943,171[g]	1.20

Notes:

#	*Percentage interest is based on the total outstanding Warrant A of 517,675,629 as at 31 March 2016.*
^	*Percentage interest is based on the total outstanding Warrant B of 161,578,504 as at 31 March 2016.*
a	*Deemed interested by virtue of his indirect interest in Inter Merger Sdn Bhd ("IMSB"), direct interest in Tegas Klasik Sdn Bhd ("TKSB"), direct interest in McDermott Industries Ltd ("McDermott") and interest of his children in KNM.*
b	*Deemed interested by virtue of her indirect interest in IMSB and interest of her spouse in TKSB, McDermott and interest of her children in KNM.*
c	*Deemed interested by virtue of his direct interest in TKSB and interest of his spouse in KNM.*
d	*Deemed interested by virtue of his indirect interest in IMSB, direct interest in TKSB, direct interest in Aveda Assets Capital Inc. ("Aveda") and interest of his children in KNM.*
e	*Deemed interested by virtue of the interest of her spouse in KNM.*
f	*Deemed interested by virtue of her indirect interest in IMSB and interest of her spouse in TKSB, Aveda and interest of her children in KNM.*
g	*Deemed interested by virtue of his direct interest in TKSB, and interest of his spouse and children in KNM.*

KNM GROUP BERHAD

(Company No. 521348-H)

FORM OF PROXY

CDS Account Number
Number of Ordinary Shares Held

*I/We ____
(FULL NAME IN BLOCK CAPITALS)

of ____
(FULL ADDRESS)

being a *member/members of **KNM GROUP BERHAD** hereby appoint *(full name as per NRIC and in block capitals)*

(i) ____ NRIC No.: ____________________

of *(full address)* ____

____

(ii) ____ NRIC No.: ____________________

of *(full address)* ____

____

or failing *him/her, the Chairman of the meeting, as *my/our proxy to vote for *me/us on *my/our behalf at the 14th Annual General Meeting of the Company to be held at Parameswara Room, Level 2, Philea Mines Beach Resort, Jalan Dulang, MINES Resort City, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia on Thursday, 16 June 2016 at 10.00 a.m. or at any adjournment thereof, in the manner indicated below:

No.	Resolutions	For	Against
1.	Re-election of Dato' Dr Khalid bin Ngah as Director		
2.	Re-election of Gan Siew Liat as Director		
3.	Re-appointment of Dato' Ab Halim bin Mohyiddin as Director		
4.	Approval of Directors' fees		
5.	Re-appointment of Messrs KPMG as Auditors		
6.	Retention of Dato' Ab Halim bin Mohyiddin as Independent Director		
7.	Authorisation for Directors to issue shares		
8.	Proposed Renewal of Share Buy-Back Mandate		
9.	Proposed Shareholders' Mandate for Recurrent Related Party Transactions		

Please indicate with an "x" in the space provided above how you wish to cast your vote. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

The proportions of *my/our holdings to be represented by my *proxy/proxies are as follows:

First Named Proxy	%
Second Named Proxy	%
Total	100%

In the case of a vote taken by a show of hands, the first proxy shall vote on *my/our behalf.

Signed (and sealed) this ______________ day of __________________, 2016

____
Signature of Shareholder

____
Common Seal to be affixed here if
Shareholder is a Corporate Member

* *Delete if not applicable*

Notes:

(i) *A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.*

(ii) *A member shall not, subject to paragraph (iii) below, be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member appoints more than one (1) proxy to attend and vote at the same meeting, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.*

(iii) *Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*

(iv) *To be valid, the duly completed form of proxy must be deposited at the registered office of the Company at 15 Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.*

(v) *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or if the appointer is a corporation, either under its common seal or under the hand of its officer or attorney duly authorised.*

(vi) *In respect of deposited securities, only members whose names appear in the Record of Depositors on 10 June 2016 shall be eligible to attend the Meeting or appoint proxies to attend and vote in his/her stead.*

Fold this flap for sealing

Then fold here

AFFIX
STAMP

THE COMPANY SECRETARY
KNM GROUP BERHAD (521348-H)
15 Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan
Malaysia

1st fold here

KNM GROUP BERHAD (521348-H)

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