

# AUDIT REPORT - MODIFIED OPINION / MATERIAL UNCERTAINTY RELATED TO GOING CONCERN : DISCLAIMER OF OPINION

## KNM GROUP BERHAD

<b>Type</b>	Announcement
<b>Subject</b>	AUDIT REPORT - MODIFIED OPINION / MATERIAL UNCERTAINTY RELATED TO GOING CONCERN DISCLAIMER OF OPINION
<b>Description</b>	KNM GROUP BERHAD ("KNMG" OR "THE COMPANY")- DISCLAIMER OPINION ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2023

Pursuant to Paragraph 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Board of Directors ("the Board") of KNMG wishes to announce that the Company's external auditor, Messrs KPMG PLT ("KPMG") had expressed a disclaimer opinion on the Company's Audited Financial Statements for the 18-month financial period ended 31 December 2023.

### A. DISCLAIMER OF OPINION

KPMG did not express an opinion on the accompanying financial statements of the Group and the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of the financial statements, KPMG was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### B. KEY AUDIT MATTERS

KPMG has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion after considering the implications of the following matters:

1. As disclosed in Note 1(b) to the financial statements, the following events and conditions indicate that material uncertainties exist that may cast significant doubt on the ability of KNMG and its group of companies (the "Group") and the Company to continue as going concerns:

- The Group incurred net losses of RM420,825,000 for the financial period ended 31 December 2023 and as at that date, the current liabilities of the Group and of the Company exceeded their current assets by RM1,159,847,000 and RM170,165,000, respectively;
- The Company has been classified as a PN17 Company on 1 November 2022 and required to submit its regularisation plan to relevant regulatory authorities for approval before 30 April 2024. The Company had on 26 April 2024, submitted an application to Bursa Securities for a further extension of 12 months up to 30 April 2025 to submit its regularisation plan;
- The Group and the Company have defaulted various loans and borrowings amounting to RM1,251,879,000 and RM456,256,000 respectively;
- A subsidiary of the Company, KNM Process Systems Sdn. Bhd. ("KNMPS") had been served with winding-up petitions by their creditors ("Scheme Creditors"). On 15 December 2022, the High Court of Kuala Lumpur ("High Court") has granted the Company and KNMPS a Restraining Order ("RO") to allow the Company and KNMPS to negotiate and finalise the terms of the Scheme of Arrangement

(“SOA”) with its Scheme Creditors without the potential threat of any proceedings and actions being brought against the Company and KNMPS in the interim. The RO had expired on 20 February 2024 and an ad interim RO has been granted to the Company and KNMPS until 26 April 2024. On 26 April 2024, the Company and KNMPS had filed an application to the High Court to sanction a new SOA with its creditors and for a new RO. Upon the filing of the above application, an automatic moratorium is granted to the Company and KNMPS from the date of filing of the application for a maximum of two months or until the High Court decides on the application, whichever is earlier; and

- The credit facilities of certain overseas subsidiaries in Germany will be expiring on 2 May 2024. The negotiation with the financial institution to renew/extend the credit facilities are on-going.

Notwithstanding the above, the financial statements of the Group and of the Company have been prepared on a going concern basis. The Directors have initiated plans to dispose the Company’s investment in Italy and the United Arab Emirates and to float the shares of its subsidiary in Germany. The Directors are also exploring opportunities to monetise the Group’s other overseas investments and non-core assets. As of the date of this report, other than the ongoing exercise to dispose its investments in Italy and the United Arab Emirates as disclosed in Note 35, the remaining plans are still at its preliminary stages and no formal agreements have been entered into with any investors or buyers. In view of the uncertainties involving the timing and successful floatation exercise as well as disposal of other investments and non-core assets, KPMG was not able to obtain sufficient appropriate audit evidence to determine whether the Group’s use of going concern basis of accounting was appropriate.

At the date of this report, the ability of the Group and the Company to continue as going concerns are highly dependent on the plans and factors as disclosed in Note 1(b). Accordingly, the financial statements of the Group and the Company may require adjustments relating to the recoverability and classification of recorded assets and to the classification and additional amounts of liabilities should the Group and the Company are unable to successfully implement or achieve the outcomes of the said plans.

2. The carrying amount of property, plant and equipment of the Group as at 31 December 2023 which has not been in use amounted to RM739,595,000. As disclosed in Note 3.6 to the financial statements, KPMG was not provided with the fair value less cost of disposal or value in use to determine the recoverable amount of the said property, plant and equipment. As a result, KPMG was unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the carrying amount of property, plant and equipment of the Group and to determine whether any adjustments were necessary in respect of the Group’s property, plant and equipment and the elements making up the statement of profit or loss and other comprehensive income, changes in equity and cash flows.

3. The audit of the subsidiaries in Germany is currently on-going. As disclosed in Note 6, the delay in completion of the audit was due to amongst others, the ongoing negotiation/renewal of the credit facilities with the financial institutions which is due to expire on 2 May 2024. Accordingly, KPMG was unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the following carrying amounts included in the Group financial statement:

Property, plant and equipment	RM 112,593,000
Right-of-use assets	RM 71,651,000
Goodwill	RM 452,916,000
Other intangible assets	RM 346,587,000
Inventories	RM 58,519,000

Current tax assets	RM 29,786,000
Contract assets	RM 132,920,000
Trade and other receivables	RM 206,305,000
Derivative financial assets	RM 6,045,000
Cash and cash equivalents	RM 144,037,000
Loans and borrowings	RM 7,089,000
Lease liabilities	RM 76,544,000
Deferred tax liabilities	RM 190,176,000
Trade and other payables	RM 127,637,000
Contract liabilities	RM 100,644,000
Non-controlling interest	RM 10,893,000
Revenue	RM 1,582,703,000
Contract costs	RM 1,212,365,000
Administrative expenses	RM 148,561,000
Other income	RM 37,759,000
Other operating expenses	RM 91,375,000
Finance costs	RM 7,152,000
Finance income	RM 1,753,000
Tax expense	RM 50,132,000

KPMG was unable to determine whether any adjustments were necessary in respect of the above financial information, and the elements making up of the statement of financial position, statement of profit or loss and other comprehensive income, changes in equity and cash flows.

4. The carrying amount of interests in subsidiaries of the Company and amount due from subsidiaries as at 31 December 2023 amounted to RM1,990,490,000 and RM407,155,000 respectively. As disclosed in Note 6 and Note 13.1 to the financial statements, KPMG was not provided with the fair value less cost of disposal or

value in use to determine the recoverable amount of the interests in subsidiaries and amounts due from subsidiaries. As a result, KPMG was unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the carrying amount of interests in subsidiaries of the Company and amount due from subsidiaries and to determine whether any adjustments were necessary in respect of the Company's interests in subsidiaries and amount due from subsidiaries and the elements making up the statement of profit or loss and other comprehensive income, changes in equity and cash flows.

5. Certain subsidiaries have defaulted loans and borrowings supported by corporate guarantee issued by the Company during the financial period. As disclosed in Note 17.7 of the financial statement, KPMG was not provided with the expected recoverable amount of the underlying securities. As a result, KPMG was unable to obtain sufficient appropriate audit evidence to determine whether a provision for corporate guarantee is required for the Company and to determine whether any adjustments were necessary in respect of the provision for corporate guarantee and the elements making up the statement of profit or loss and other comprehensive income, changes in equity and cash flows.

### **C. STEPS TAKEN OR PROPOSED TO BE TAKEN TO ADDRESS THE MATTERS THAT RELATES TO THE DISCLAIMER OPINION**

In relation to the above, the Board wishes to inform that the Company is taking the necessary steps to address its PN17 status and is formulating a Regularisation Plan ("RP"). In this regard, on 26 April 2024 the Company, through its adviser, M&A Securities Sdn Bhd ("MAS"), submitted an application for further extension of time to submit the RP to the regulatory authorities.

### **D. TIMELINE**

The RP is intended to resolve all the audit issues and the timeline is dependent on the implementation of RP.

This announcement is dated 15 May 2024.

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#### **Announcement Info**

<b>Company Name</b>	KNM GROUP BERHAD
<b>Stock Name</b>	KNM
<b>Date Announced</b>	15 May 2024
<b>Category</b>	General Announcement for PLC
<b>Reference Number</b>	GA1-15052024-00067