KNM™

KNM GROUP BERHAD
(521348-H)

ANNUAL 2016 REPORT

WORLD CLASS PROCESS EQUIPMENT MANUFACTURER AND TOTAL SOLUTIONS PROVIDER

BORSIG

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

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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 PLT
(converted from a conventional partnership, KPMG, on 27 December 2016)
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 15th 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, 15 June 2017 at 9.30 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 2016 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' Sri Adnan bin Wan Mamat — ***Ordinary Resolution 1***

   (b) Chew Fook Sin — ***Ordinary Resolution 2***

3. To approve the Directors' fees and benefits of RM1,330,000 for the financial year ended 31 December 2016. — ***Ordinary Resolution 3***

4. To re-appoint Messrs KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016) as Auditors of the Company and to authorise the Directors to fix their remuneration. — ***Ordinary Resolution 4***

As Special Business:

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

5. **Retention of Dato' Ab Halim bin Mohyiddin as Independent Director** — ***Ordinary Resolution 5***

   "**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."

6. **Authority to allot and issue shares pursuant to Section 75 of the Companies Act, 2016** — ***Ordinary Resolution 6***

   "**THAT** subject to the Companies Act, 2016 and the Articles of Association of the Company, the Directors be and are hereby empowered, pursuant to Section 75 of the Companies Act, 2016, 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."

Notice of Annual General Meeting
(cont'd)

7. **Proposed renewal of shareholders' mandate for share buy-back** ***Ordinary Resolution 7***

"**THAT** subject to the compliance with all applicable laws, the Companies Act, 2016 ("the Act"), the Company's Memorandum and Articles of Association, and the regulations and guidelines applied from time to time by Bursa Malaysia Securities Berhad ("Bursa Securities") and/or any other relevant regulatory authority, approval be and is hereby given to the Company to purchase at any time such amount of ordinary shares 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 of the Company as at 31 December 2016; 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 Main Market Listing Requirements; and/or

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

(e) transferred for purposes of an employees' share scheme and/or as purchase consideration; and/or

(f) dealt in any other manner as prescribed by the applicable rules, regulations and orders made pursuant to the Act, the Bursa Securities Main Market 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 340(2) of the Act (but must not extend to such extensions as may be allowed pursuant to Section 340(4) 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)

8. **Proposed shareholders' mandate for recurrent related party transactions of a revenue or trading nature** ***Ordinary Resolution 8***

"**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 28 April 2017 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 340(2) of the Act (but must not extend to such extensions as may be allowed pursuant to Section 340(4) 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."

9. 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
28 April 2017

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 340(1) of the Companies Act, 2016 ("the Act") does not require a formal approval of the shareholders.

(ii) A proxy may but need not be a member of 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 8 June 2017 shall be eligible to attend the Meeting or appoint proxies to attend and vote in his/her stead.

(viii) Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the 15th Annual General Meeting will be put to vote by way of poll.

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 5:-

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 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 Nomination Committee and the Board of Directors ("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 5:-

(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 and issue shares pursuant to Section 75 of the Companies Act, 2016

   (a) The shareholders' general mandate sought under the proposed Ordinary Resolution 6 is a renewal of the relevant shareholders' general mandate obtained in the previous Company's 14th Annual General Meeting held on 16 June 2016 ("Previous Mandate") and such authority will lapse at the conclusion of the forthcoming 15th Annual General Meeting to be held on 15 June 2017.

   (b) As at the date of this Notice, no new shares in the Company were issued pursuant to the Previous Mandate.

   (c) In order to eliminate any delay and costs involved in convening a general meeting to approve such issuance of shares, and to give flexibility and expediency to the Company to allot and issue shares, it is considered appropriate that the Directors be empowered, as proposed in Ordinary Resolution 6, if passed, to allot and issue up to ten percent (10%) of the issued and paid-up 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.

   (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 7, if passed, will renew the shareholders' mandate for share buy-back obtained at the previous Company's 14th Annual General Meeting held on 16 June 2016 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 8, 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 28 April 2017 which is despatched together with the Company's Annual Report 2016.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

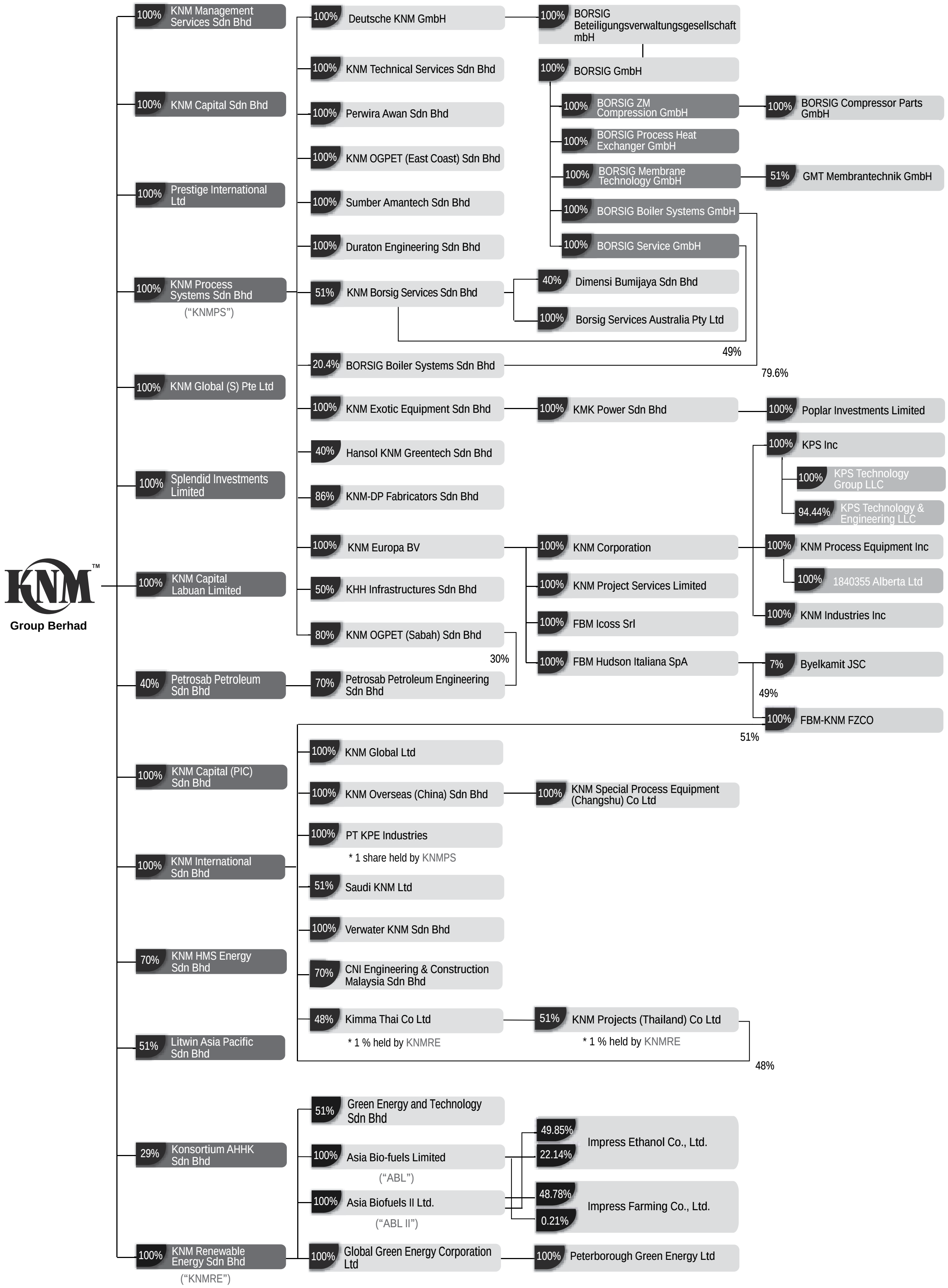
1. Details of persons who are standing for election as Directors

   There is no individual seeking election as a Director at the 15th 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 15th Annual General Meeting (Resolutions 1, 2 and 5) 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 2016.

2. Ordinary resolution on authority to Directors to allot and issue shares

   Details of the authority to Directors to allot and issue shares in the Company pursuant to Section 75 of the Companies Act, 2016 are stated in the Explanatory Note (2) of the Notice of Annual General Meeting.

CORPORATE STRUCTURE
as at 31 March 2017



5-YEAR GROUP FINANCIAL HIGHLIGHTS

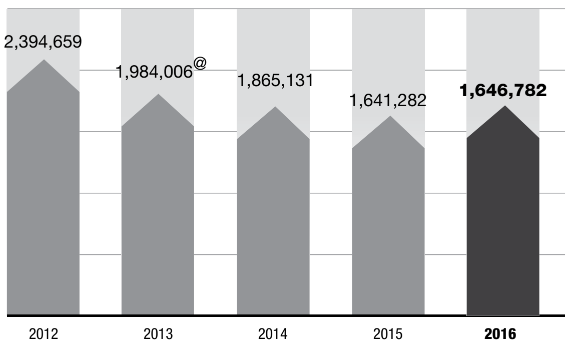
	2016	2015	2014	2013	2012*
Revenue (RM'000)	1,646,782	1,641,282	1,865,131	1,984,006@	2,394,659
(Loss)/Profit Before Tax (RM'000)	(316,647)	124,135	118,249	44,557@	11,294
(Loss)/Profit After Tax (RM'000)	(333,124)	47,899	39,752	19,908@	70,346
(Loss)/Earnings Before Interest, Tax, Depreciation and Amortisation (RM'000)	(181,254)	263,144	269,428	198,599@	193,096
Shareholders' Equity (RM'000)	2,385,418	2,718,794	2,162,046	2,059,755	1,820,290
Basic (Loss)/Earnings Per Share (sen)	(15.61)	2.65	2.72	1.47@	6.96
Net Assets Per Share (RM)	1.11	1.26	1.32	1.38	1.22

Notes:-

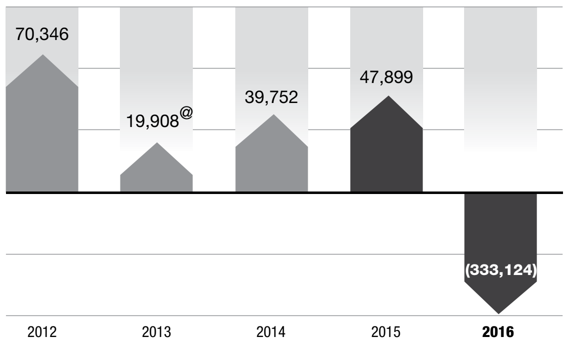
@ *For the financial year 2013, Brazil operations were excluded as discontinued operation. Brazil operations were presented as continuing operation in financial year 2012 and prior years.*

* *Pursuant to the adoption of MFRS 10 during financial year 2013, two entities, previously equity-accounted as associates, were reclassified as KNM Group Berhad's subsidiaries. Hence, the financials presented were restated retrospectively since 2009.*

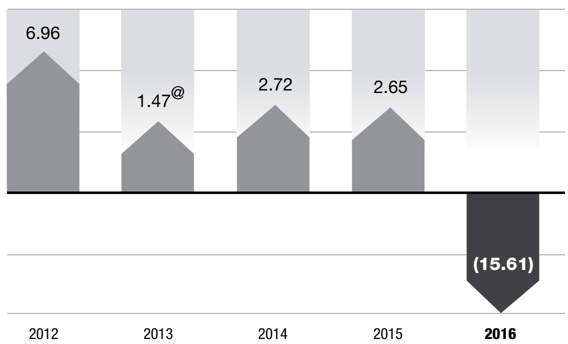
Revenue (RM'000)



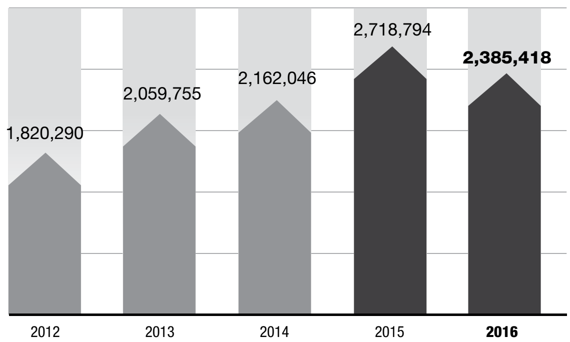
(Loss)/Profit After Tax (RM'000)



Basic (Loss)/Earnings Per Share (sen)



Shareholders' Equity (RM'000)



CHAIRMAN'S MESSAGE

Dear Valued Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of KNM Group Berhad for the financial year ended 31 December 2016.

I am pleased to inform that the Company has achieved an important milestone in 2016 by being the first public listed company in Malaysia to obtain a credit guarantee from Credit Guarantee and Investment Facility (commonly referred to as "CGIF"), a trust fund of the Asian Development Bank, for a bond programme in Thailand and being the first Malaysian public listed company to issue a CGIF guaranteed Thai currency denominated bond in Thailand's capital market. The bond issuance of THB2,780 million (equivalent to approximately RM333.9 million) was successfully completed on 18 November 2016. Proceeds from the bond issuance will be utilised by our subsidiary, Impress Ethanol Co., Ltd. ("IEL") to refinance IEL's existing loan, for working capital and to finance future bio-ethanol plant expansion.

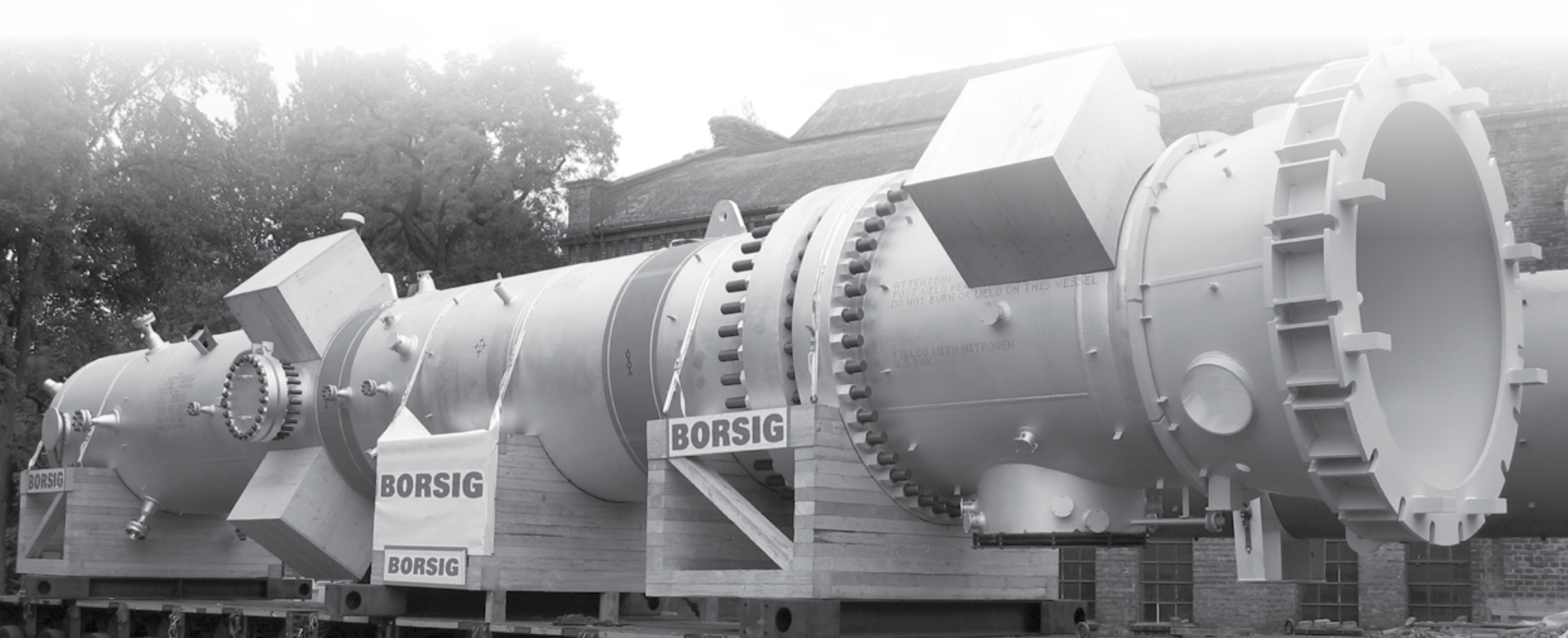
The existing ethanol plant owned by IEL is capable of producing 200,000 litres of ethanol per day. Once commercial operation commences in second half of 2017, it would mark the first fruits of success in respect of our Group's long term strategy to generate sustainable recurring income from renewable energy businesses. The Company hopes to implement several other recurring income projects within the near future.

It has been a very challenging year for us during the financial year ended 31 December 2016 due to the uncertainties and volatilities encountered in our operating environment. However, I remain positive and confident about the future of KNM. The Group will continue its strategy of diversifying its sources of income from project based contracts by building long term sustainable recurring revenues from energy businesses.

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

Our appreciation also extends to the employees of our Group for their contribution, dedication and untiring commitment to our Group during this challenging time as well as 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



MANAGEMENT DISCUSSION & ANALYSIS

KNM GROUP BUSINESS OPERATIONS

KNM Group Berhad's ("KNM") business started in 1990 and has become a multinational company with global brands. KNM's businesses is well diversified with core businesses in project management, engineering, manufacturing, commissioning and maintenance of process equipment for the renewable energy, power, utilities, refining and petrochemical industries. Our Group also provides one-stop process packages and integrated solutions for the oil and gas, power and renewable energy industries.

Our Group operates in more than 10 countries and offers a broad range of products and services under renowned brands of KNM, BORSIG and FBM Hudson with industry experience spanning over 175 years.

KNM Group's revenue from the various industry sectors it services is well diversified and is mainly derived from the petrochemicals and oil and gas refinery and processing industries.

Whilst headquartered in Malaysia, our Group operates 16 manufacturing facilities and 3 engineering offices which are located in 9 countries, including a bio-ethanol plant in Thailand.

STRATEGIC DIRECTION

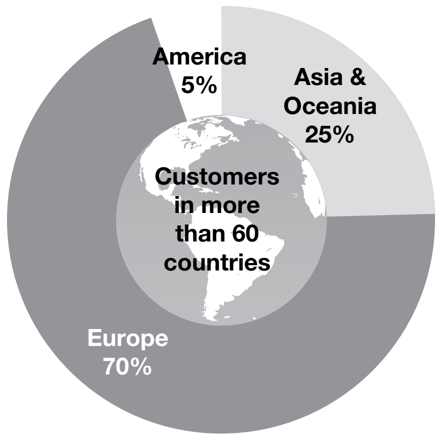
Traditionally, KNM Group derives its revenue from contracting works. The Group is widening its income base by undertaking and become an owner of projects that generate recurring incomes, such as biofuel and waste-to-energy so that the Group as a whole will be more resilient and less susceptible to cyclical factors. This will change our Group's revenue landscape going forward. In long term, the Group aims to achieve a 50:50 ratio of contribution from recurring income projects and contracting works.

FINANCIAL REVIEW

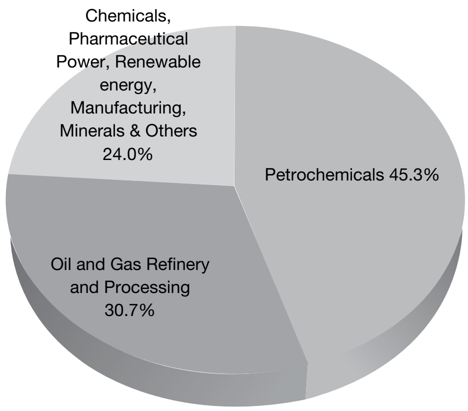
Financial Performance

Our Group maintained a revenue of approximately RM1.6 billion in the financial year ended 31 December 2016 ("FY2016") as compared with the preceding financial year. Our Europe segment remained as the major revenue contributor of our Group, accounted for approximately 70% of our Group's revenue.

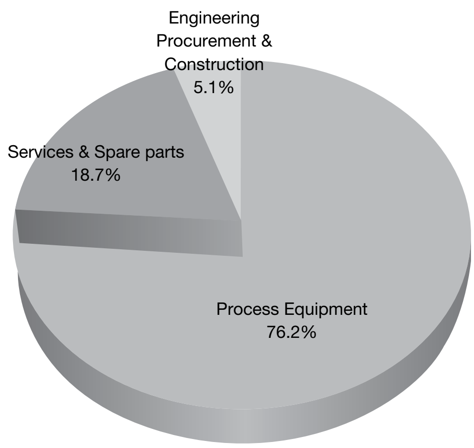
Revenue By Geographical Segment (FY2016)



Revenue By Industry (FY2016)



Revenue By Product / Services (FY2016)



Management Discussion & Analysis
(cont'd)

Our Group recorded a loss before tax of RM316.6 million in FY2016 compared with the profit before tax of RM124.1 million in the preceding financial year. The changes on profit before tax was mainly due to:

- Operating losses in America segment amounted to RM46.7 million in FY2016 as compared to an operating profit of RM7.8 million in the preceding financial year, mainly contributed by the losses in Canada operations. Losses in Canada operations was due to the slower oil sand development in North America and unexpected increase in project costs. Subsequently, we have scaled down the Canada operations significantly;

- Operating losses in Asia & Oceanic Segment amounted to RM241.0 million in FY2016 as compared with the preceding financial year's operating profit of RM120.5 million. The operating loss was mainly due to loss in foreign exchange, impairment of assets and one-off unforeseen logistic costs for projects completed in FY2016; and

- Lower operating profit recorded by Europe segment of RM12.2 million in FY2016 as compared with preceding financial year's operating profit of RM37.4 million. The lower operating profit was mainly due to the higher provision on warranty expenses and doubtful debts of approximately RM36.7 million. Excluding these one-off provisions, the segment's performance in FY2016 was better than preceding year.

Assets

Total assets of our Group has increased by RM334.4 million to RM4,641.5 million as at 31 December 2016. It was mainly resulted from the consolidation of the assets in the new acquired subsidiary, i.e. Impress Ethanol Co., Ltd ("IEL"). KNM via its wholly owned subsidiary, KNM Renewable Energy Sdn. Bhd., has on 19 May 2016 completed the acquisition of the entire equity interest in Asia Bio-fuels Limited and Asia Biofuels II Ltd. which owns a combined 72% equity interest in IEL and 49% equity interest in Impress Farming Co., Ltd., for a total cash consideration of USD21.6 million.

IEL operates as an ethanol producer and sells fuel grade and industrial grade ethanol. IEL's bio-ethanol plant is located on a 171-acre (80 hectares) site at Chachoengsao province, located at 135 kilometre east of Bangkok, Thailand. The Phase 1 of the bio-ethanol plant with the total capacity of 200,000 litres has been completed in end of April 2017.

LIQUIDITY AND CAPITAL RESOURCES

Our Group's borrowing increased by approximately RM602.9 million to RM1,321.4 million as at 31 December 2016 mainly due to the following:

- Issuance of THB2,780 million (equivalent to approximately RM333.9 million) bonds in November 2016 in Thailand; and

- Net increase in other borrowings mainly for trade facilities and contract financing of approximately RM269.0 million to finance the on-going contracts.

With the above additional borrowings, the gearing ratio of our Group (i.e. total debt divided by total equity) has increased to approximately 0.6 times as at 31 December 2016 from 0.3 times as at 31 December 2015.

Cash and cash equivalent increased from RM198.8 million as at 31 December 2015 to RM419.2 million as at 31 December 2016, mainly due to proceeds from the issuance of bonds in Thailand.

Management Discussion & Analysis (cont'd)

On 18 November 2016, KNM has completed the issuance of Thai Baht bonds amounting to THB2,780 million (equivalent to approximately RM333.9 million). These bonds are guaranteed by Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank and fully underwritten by United Overseas Bank (Thai) Public Company Limited ("Guaranteed Thai Bonds"). The Guaranteed Thai Bonds is rated AAA/Stable by TRIS Rating Co Ltd, Thailand with a fixed coupon rate of 3.00% p.a. and for a 5-years tenure maturing on 18 November 2021.

KNM is the first public listed company in Malaysia to obtain the credit guarantee from Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank, for the Guaranteed Thai Bonds and first Malaysian public listed company to issue Thai currency denominated bond in Thailand capital market.

Proceeds from the Guaranteed Thai Bonds will be utilised by KNM to on-lend IEL, which will in turn use the Guaranteed Thai Bonds proceeds for the purposes of amongst others, refinance IEL's existing loan, financing future expansion and working capital expenses for IEL's bio-ethanol plants in Thailand. IEL intends to expand its existing 200,000 litre per day capacity bio-ethanol plant with additional capacity of 300,000 litres per day in 2017, which will be mostly funded by the proceeds from the Guaranteed Thai Bonds.

RISK EXPOSURE

The primary risks our Group is exposure to are as below:

Business risk

Our Group is principally involved in provision of project management, engineering, manufacturing, commissioning and maintenance of process equipment for the renewable energy, power, utilities, refining and petrochemical industries. Our Group is not insulated from the general business risks as well as risks inherent in the underlying industries to which it provides goods and services to. These may include shortages of equipment, materials, labour, rising cost due to inflation, labour disputes, adverse weather conditions, natural disasters, accidents and unforeseen circumstances and problems. Any of these could give rise to delays in the completion of the relevant projects or cost overruns.

We seek to mitigate these risks through, among others, constantly anticipating our needs through diligent costing, back-to-back quotation from suppliers during bids, and monitoring the viability of a project and the financial strength of the client who contracted us. In addition, we also seek to limit these business risks by regularly monitoring our debtors' position, nurturing and maintaining good business relationship with our customers and suppliers as well as constant monitoring of our expenditures.

Industry Competition

Our Group faces competition from local and overseas competitors who provide similar product and service offerings. The intensity of the competition typically varies by project and geographical regions. Our Group also competes with comparatively larger competitors which may possess superior marketing resources and larger capital to sustain periods of intense competition. As such, our Group has been actively diversified away from the oil and gas industry and developed businesses from petrochemical and renewable energy industries.

Our Group will continue to take the necessary steps to ensure quality products and services and develop innovative solutions to remain competitive.

Foreign exchange rate fluctuations

Our Group operates in several countries and, therefore, is exposed to movements in foreign exchange rates. In general, our Group transacts business significantly in MYR, USD and the Euro. To the extent that its sales, cost of sales and operating expenses are not denominated in the same currencies, it may be susceptible to movements in exchange rates. Accordingly, any significant foreign currency fluctuations may have an adverse impact on our Group's business, performance, financial condition and results of operations.

To mitigate the risk, our Group strives to constantly monitor the developments of our foreign currency exposure

Management Discussion & Analysis
(cont'd)

and will take the necessary steps to minimise their impact. Our Group has a formal hedging policy of entering into foreign exchange forward contracts with licensed financial institutions to mitigate against foreign exchange fluctuations in the event of any adverse fluctuations in the exchange rate between the currencies in which the Group's sales and purchases are respectively denominated.

OUTLOOK

The Board anticipates the outlook for financial year ending 31 December 2017 will remain challenging. Our Group will continue its strategy to diversify its sources of income from project based contracts by building long term sustainable recurring revenue from energy businesses.

With the commencement of commercial operation of IEL's bio-ethanol plant in second half of 2017, IEL is expected to contribute positively to our Group's revenue in the coming years.

PROFILE OF DIRECTORS

DATO' AB HALIM BIN MOHYIDDIN, DPMS

Independent Non-Executive Chairman
Aged 71, Male, 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 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 Amway (Malaysia) Holdings Berhad, and a Board member of 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 61, Male, Malaysian

Ir Lee Swee Eng founded the KNM Group in 1990 as a private company specializing in manufacturing of process equipment 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 worked there before he graduated as a Production Specialist and with Petronas, the Malaysian National Oil Corporation from 1979 to 1985 in various capacities ranging from Production 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 in 1986 and subsequently joined Technip Geoproduction (Malaysia) Sdn Bhd as its Director and eventually, Managing Director from 1986 to 1990.

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 was 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 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.

Profile of Directors
(cont'd)

DATO' DR KHALID BIN NGAH
Senior Independent Non-Executive Director
Aged 70, Male, 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 1987.

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.

DATO' SRI ADNAN BIN WAN MAMAT
Independent Non-Executive Director
Aged 57, Male, 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 or public listed companies.

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

SOH YOKE YAN
Independent Non-Executive Director
Aged 49, Female, 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.

Profile of Directors
(cont'd)

GAN SIEW LIAT
Executive Director
Aged 56, Female, 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 or public listed companies.

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

CHEW FOOK SIN
Executive Director
Aged 61, Male, 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 or public listed 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. *None of the Directors has any conviction for offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year.*

PROFILE OF KEY SENIOR MANAGEMENT

TAN KOON PING
Group Finance Director/Group Chief Financial Officer
Aged 46, Male, Malaysian

Tan Koon Ping was appointed as the Group Finance Director of KNM Group Berhad on 11 March 2013 and assumed the position of Group Finance Director/Group Chief Financial Officer on 26 March 2013. He is also the Joint Managing Director of BORSIG Group as well as the Chairman of FBM Group and CNI Engineering & Construction Malaysia Sdn Bhd.

He possess a professional degree in finance and accounting from the Malaysian Institute of Certified Public Accountants (MICPA) and has more than 20 years of experience in areas of auditing, accounting and corporate finance in various industries locally and internationally. Prior to joining the KNM Group, he held various senior management positions in several companies in Malaysia such as I-Berhad, Pulai Springs Berhad and the Mayland Group of Companies from 2004 to 2012, and was attached with Assurance and Advisory of Deloitte Touche Tohmatsu from 1995 to 2004.

He sits on the Board of several subsidiary companies of KNM Group Berhad. He is not a Director of any public or public listed companies.

FELIX WONG YEEN KEE
Chief Executive Officer (FBM Group)
Aged 41, Male, Malaysian

Felix Wong Yeen Kee was appointed as the Chief Executive Officer of the FBM Group, Italy on 8 April 2016. He is also the Joint Managing Director of the BORSIG Group, Germany.

He joined the Group in 2006 as Personal Assistant to the Group Managing Director and was promoted to several assignments to other business units in Italy, Germany, and Brazil prior to assuming his current position in 2011. He is also a qualified member of the Malaysian Institute of Certified Public Accountants (MICPA). He has more than 20 years of experience in management and financial organisations.

He sits on the Board of several subsidiary companies of KNM Group Berhad. He is not a Director of any public or public listed companies.

ALEXANDER NEUBAUER
Chief Executive Officer (BORSIG Group)
Aged 50, Male, German

Alexander Neubauer was appointed as the Chief Executive Officer of the BORSIG Group on 1 September 2016.

He graduated with a Business Degree in Foreign Trade & Wholesales before moving to South Africa for his internship with Siemens Ltd. He graduated with a Master Degree in business administration and economics from the University of Oldenburg - Germany in 1994 and obtained his executive Certificate in Global Strategic Management from the Harvard Business School in Boston, USA in June 2015.

He started his career in 1994 as the Group Financial Control Manager at Bilfinger's head office Mannheim, Germany and served in various capacities from Chief Financial Officer to Managing Director of Schlosser-Pfeiffer GmbH (before Bilfinger disposed the company to the Hess Group in 2002). Thereafter, he acted as Head of Bilfinger's Group Internal Audit from 2002 to 2004.

In 2004, he became the Executive Director, Finance (CFO) to Baulderstone Hornibrook, Sydney (one of the largest Australian building companies which was acquired by Bilfinger in 1993 and then sold in 2010). Subsequently, from 2006 to 2015 he was posted to Bilfinger Powers Systems GmbH in Oberhausen and acted as a Managing Director for the entire Power Services Segment of Bilfinger SE before joining KNM Group Berhad as the Interim CEO for the Group's Renewable Energy, Power & Utilities Division on 1 June 2016. He has extensive experience in the field of management and finance.

He sits on the Board of several subsidiary companies of KNM Group Berhad. He is not a Director of any public or public listed companies.

Note:
All Senior Management staff herein stated:-
(i) are not related to any family members of the Directors and/or major shareholders of the Company;
(ii) have no conflict of interests with the Company; and
(ii) have no conviction for offences within the past 5 years and have not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year.

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 ("MCCG 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 or 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	5/5	100
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, advise 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.

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.

Corporate Governance Statement
(cont'd)

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.

Corporate Governance Statement
(cont'd)

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

	Number of meetings attended	%
Dato' Ab Halim bin Mohyiddin (Chairman)	3/3	100
Dato' Dr Khalid bin Ngah	3/3	100
Soh Yoke Yan	3/3	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, the Board Committees and the respective Directors, and the independence of the director(s);

ii) reviewed the independence of Independent Directors as well as considering the board's succession plans; and

iii) 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 have attained 70 years' of age or more to be re-elected, 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.

The Remuneration Committee met once 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)	1/1	100
Dato' Ab Halim bin Mohyiddin	1/1	100
Ir Lee Swee Eng	1/1	100
Soh Yoke Yan	1/1	100

Corporate Governance Statement
(cont'd)

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 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
Gan Siew Liat	2/2	100
Soh Yoke Yan	2/2	100

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:-

Company

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	450	3,494	35	–	24	4,003
Non-Executive Directors	600	–	221	–	–	821
Total	**1,050**	**3,494**	**256**	**–**	**24**	**4,824**

Group

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	450	4,300	35	–	28	4,813
Non-Executive Directors	600	–	221	–	–	821
Total	**1,050**	**4,300**	**256**	**–**	**28**	**5,634**

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	–	1	1
RM200,001 to RM250,000	–	3	3
RM950,001 to RM1,000,000	2	–	2
RM2,850,001 to RM2,900,000	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:-

Directors	Title of the training programme/ Name of organizer	Date
Dato' Ab Halim bin Mohyiddin	CG Breakfast Series for Directors: "Future of Auditor Reporting – The Game Changers for Boardroom" / *Bursa Malaysia Berhad*	9 March 2016
	Independent Directors Programme: The Essence of Independent / *The ICLIF Leadership and Governance Centre*	28 March 2016
	MISC Annual Planning (MAP) Forum 2016 / *CPD, MISC Berhad*	13 July 2016
	5th PETRONAS BAC Forum 2016 / *Group Internal Audit, PETRONAS*	16 August 2016
	Briefing on New Audit Reporting Requirements / *KPMG PLT, KNM Group Berhad*	25 August 2016
	Annual Directors' Training 2016 / *LCSC, MISC Berhad*	11 November 2016
Ir Lee Swee Eng	Briefing on New Audit Reporting Requirements / *KPMG PLT, KNM Group Berhad*	25 August 2016

Corporate Governance Statement
(cont'd)

Directors	Title of the training programme/ Name of organizer	Date
Dato' Dr Khalid bin Ngah	CG Breakfast Series for Directors: "Future of Auditor Reporting – The Game Changers for Boardroom" / *Bursa Malaysia Berhad*	9 March 2016
	Independent Directors Programme: The Essence of Independent / *The ICLIF Leadership and Governance Centre*	28 March 2016
	Briefing on New Audit Reporting Requirements / *KPMG PLT, KNM Group Berhad*	25 August 2016
Dato' Sri Adnan bin Wan Mamat	Ring the Bell for Gender Equality / *Bursa Malaysia Berhad*	11 March 2016
	Briefing on New Audit Reporting Requirements / *KPMG PLT, KNM Group Berhad*	25 August 2016
Soh Yoke Yan	Transfer Pricing Documentation - Practical Issues Faced in Preparing Centemporaneous Transfer Pricing Documentation / *Malaysian Institute of Accountants*	18 May 2016
	Briefing on New Audit Reporting Requirements / *KPMG PLT, KNM Group Berhad*	25 August 2016
	Income Tax & GST Implication and Application Leveraging the New Companies Act 2016 / *Malaysian Institute of Accountants*	7 December 2016
Gan Siew Liat	Briefing on New Audit Reporting Requirements / *KPMG PLT, KNM Group Berhad*	25 August 2016
Chew Fook Sin	CG Breakfast Series for Directors: "Future of Auditor Reporting – Improving Board Risk Oversight Effectiveness with COSO" / *Bursa Malaysia Berhad*	26 February 2016
	Briefing on New Audit Reporting Requirements / *KPMG PLT, KNM Group Berhad*	25 August 2016

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 Companies Act, 1965 ("the Act"), and the Companies Act, 2016 (wherever applicable) [collectively "the Act"]. The Companies Act, 2016 came into effect on 31 January 2017 and hence, the financial statements for the financial year ending 31 December 2017 will be prepared in accordance with the Companies Act, 2016.

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.

Corporate Governance Statement
(cont'd)

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 RM460,391 (2015: RM487,331).

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 of the Audit Committee are set out in the Board Charter and the activities of Audit Committee during financial year under review are as set out in the Audit Committee Report.

Corporate Governance Statement
(cont'd)

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 conducted by poll for any resolutions tabled at the Annual General Meeting subject to Paragraph 8.29A of the Bursa Securities Listing Requirements. 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 & SUSTAINABILITY INITIATIVES ("CSRSI")

The Group is committed to observe and assist in elevating the social well-being of the community and carries out its CSRSI in any manner possible including but not limited to promoting humanitarian works or projects to the underprivileged and deserving ones as well as to ensure the sustainability of the environment, both locally and on the international front.

To the Company, corporate social responsibility starts by integrating business practices that are based on ethical values and respect for the community, environment, shareholders and other stakeholders. The Group corporate social responsibility framework is designed to deliver sustainable value to the society at large, and ensure that the interest of the public, including that of the Group's investors in general are 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 CSRSI focuses on four key 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 adverse environmental impacts and devotes itself 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, among others, the relevant environmental policies, rules and regulations for the Group.

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 bioetanol 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. as part of its corporate sustainability exercise.

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 electric items with energy efficient systems, wherever possible.

Corporate Governance Statement
(cont'd)

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.

Fire Drills are conducted annually at KNM's Corporate HQ Office in the presence of BOMBA and the POLICE. The drills are 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.

On 3 June 2016, the Group HSE Division at KNM's Corporate HQ Office advocated the "No Smoking" Campaign and initiated the "No Lift-Day" on every Friday of the week towards promoting a healthier lifestyle.

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 bolster 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 as part of its corporate social responsibility initiatives.

Led by KNM's BORSIG Group in Germany, the Group actively participated and sponsored the 2016 Ammonia Plants & Related Facilities Symposium as well as the European Ethylene Producers Conference 2016 ("EEPC") that facilitated *inter alia* the networking and sharing of safety information besides promoting product knowledge.

In Malaysia, the Group also sponsored the International Materials Technology Conference & Exhibition held in May 2016 ("IMTCE 2016") and organised by the Institute of Materials Malaysia. The IMTCE 2016 covers both economic issues and technical aspects on material science, engineering and technology which ultimately affects all industries globally. It provides a platform for the collaboration and exchange of ideas, knowledge and expertise amongst industrial practitioners, industry's professionals and the academia of higher learning institutions in respect of the sustainability of facilities, equipment and assets through design, research and invention of better materials, better products and better services.

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.

The Group had participated in and/or contributed towards the following events in Malaysia:-

a. On 8 November 2016, the Group's HSE Division carried out its annual Blood Donation and Organ Donation 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.

b. Others – KNM Group had contributed to the charity fund raising events organized by MIDA, DOSH, Institute of Materials Malaysia, as well as contributions to the Tabung Pahlawan 2016 as initiated by the Exco Kerajaan Negeri Melaka.

Elsewhere within the Group's overseas subsidiaries, the following key activities were carried out:-

a. FBM Hudson Italiana had participated in Charity Golf Tournaments organized by Bechtel and KBR respectively and had sponsored KBR's Global Ammonia Purifier Technology Licensees Conference too.

b. Apart from sponsoring the European Ethylene Producers Conference and the CEFIC (European Chemical Industry Council) 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 2016, 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 and Deutsche Kinderkrebsstiftung (German Cancer Foundation)'s Christmas Cards sale - for their respective 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 Foörderverein Staatliche Technikerschule Berlin (Berlin Technical University) - to offer the best possibilities to its best students.
   - Supporting Rheinfelder Tafel, a voluntary organization that helps support fellow citizens in distress in Rheinfelden, Germany.
   - Supporting children from socially disadvantaged backgrounds in Berlin via the distribution of clothes, food and education through the Die Arche (The Ark) organisation; and providing warm meals, clothes and medical assistance to the homeless during winter through the Berliner Stadtmission Kältehilfe (Berlin CityMission Lodging) organization.

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.

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 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. However, no notes were issued by Splendid during the financial year under review until to-date.

(ii) On 18 November 2016, KNM has completed the issuance of Thai Baht bonds amounting to THB2,780 million (equivalent to approximately RM333.9 million), guaranteed by Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank and fully underwritten by United Overseas Bank (Thai) Public Company Limited (the "Guaranteed Thai Bonds"). The Guaranteed Thai Bonds has a fixed coupon rate of 3.00% p.a. and a tenure of 5-year from the date of issuance.

Corporate Governance Statement
(cont'd)

2. Related Party Transactions

All related party transactions for 2016 are set out in Note 27 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.

3. Audit and Non-Audit Fees

The amount of audit and 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 2016 were as follows:-

	Company (RM)	Group (RM)
• Audit services		
- Messrs KPMG PLT	328,000	912,000
- Affiliates of KPMG PLT in overseas	–	2,065,000
- Other auditors	–	101,000
• Non-audit services		
- Messrs KPMG PLT*	18,000	18,000
- Affiliates of KPMG PLT in Malaysia**	9,000	218,000
- Affiliates of KPMG PLT in overseas***	–	823,000
- Other auditors**	–	10,000
Total	**355,000**	**4,147,000**

Notes:-

* *Professional fees rendered for review of Statement on Risk Management and Internal Control and other Engagements*

** *Professional fees rendered for taxation, financial and tax due diligence*

*** *Professional fees rendered for taxation, financial and in overseas tax due diligence*

4. 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 2016 or which were entered into since the end of the previous financial year.

5. 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 2016 are as below:-

a) From Inter Merger Sdn Bhd, a substantial shareholder to the Company for RM643,255.41; and
b) From KNM's Director, Chew Fook Sin to the Company's wholly-owned subsidiary, KNM Process Systems Sdn Bhd for RM821,165.98.

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 2016.

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 2016 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%)

The Terms of Reference of the Committee is available on the Company's website.

SUMMARY OF WORKS DURING THE YEAR

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

1. reviewed and adopted the internal audit plan for 2017, including its scope and areas of audit;

2. reviewed and considered the re-appointment of external auditors;

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

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

5. reviewed the Directors' Report, Auditors' Report and Audited Financial Statements, and relevant statements or reports for inclusion in the Company's Annual Report;

6. reviewed the Internal Audit Report(s) issued by outsourced internal auditors and noted the observations, recommendations and management's responses thereto;

7. reviewed the Risk Management Report and updated the Committee on action plans taken to manage identified risks;

8. reviewed and approved the unaudited quarterly results prior to submission to Board of Directors for consideration and approval; and

9. reviewed and approved the Audit Plan presented by the external auditors.

Audit Committee Report
(cont'd)

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 RM460,391 (2015: RM487,331) were incurred for the internal audit functions in respect of the financial year ended 31 December 2016.

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 and 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. The function is centralized at the Group level and 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.

Statement on Risk Management and Internal Control
(cont'd)

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.

Pursuant to Paragraph 15.23 of the Bursa Malaysia's Main Market Listing Requirements, the external auditors had reviewed the Statement on Risk Management and Internal Control and report the results thereof to the Board of KNM Group.

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 of view that the risk management and internal control systems of the Group is satisfactory. The Board and management continuously take measures to identify, evaluate and monitor, and improve the existing risk management and internal controls systems of the Group.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the year ended 31 December 2016

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding activities and provision of management services, while the principal activities of the subsidiaries are as stated in Note 31 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 31 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Loss for the year attributable to:		
Owners of the Company	(332,981)	(1,417)
Non-controlling interests	(143)	–
	(333,124)	(1,417)

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 during the financial period from 1 January 2016 until the date of this 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 2016
(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			
	At 1.1.2016	**Bought/ Transferred**	**Sold/ Transferred**	**At 31.12.2016**
Shareholdings in which Directors have interests in the Company				
Direct interests				
Dato' Ab. Halim bin Mohyiddin	2,452,500	–	–	2,452,500
Ir Lee Swee Eng	30,208,838	7,200,000	–	37,408,838
Gan Siew Liat	9,045,000	–	–	9,045,000
Chew Fook Sin	4,303,140	870,000	–	5,173,140
Indirect interests				
Ir Lee Swee Eng	422,744,859	–	(8,070,000)	414,674,859
Soh Yoke Yan	120,000	–	–	120,000
Gan Siew Liat	422,744,859	–	(8,070,000)	414,674,859
Chew Fook Sin	23,318,058	–	(870,000)	22,448,058

	Number of Warrant A			
	At 1.1.2016	**Bought**	**Sold**	**At 31.12.2016**
Warrantholdings A 2012/2017 in which Directors have interests in the Company				
Direct interests				
Dato' Ab. Halim bin Mohyiddin	721,322	–	–	721,322
Ir Lee Swee Eng	10,210,716	–	–	10,210,716
Gan Siew Liat	2,222,205	–	–	2,222,205
Chew Fook Sin	1,618,570	–	–	1,618,570
Indirect interests				
Ir Lee Swee Eng	128,541,827	–	–	128,541,827
Gan Siew Liat	128,541,827	–	–	128,541,827
Chew Fook Sin	6,858,251	–	–	6,858,251

Directors' Report
for the year ended 31 December 2016 (cont'd)

DIRECTORS' INTERESTS (CONTINUED)

	Number of Warrant B			
	At 1.1.2016	**Bought**	**Sold**	**At 31.12.2016**
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	1,943,171	–	–	1,943,171

	Number of ESOS Options			
	At 1.1.2016	**Granted**	**Exercised**	**At 31.12.2016**
ESOS options in which Directors have interests in the Company				
Direct interests				
Dato' Ab. Halim bin Mohyiddin	1,027,270	513,635	–	1,540,905
Ir Lee Swee Eng	5,794,092	2,897,046	–	8,691,138
Dato' Dr. Khalid bin Ngah	762,564	381,282	–	1,143,846
Soh Yoke Yan	762,564	381,282	–	1,143,846
Gan Siew Liat	5,262,564	2,631,282	–	7,893,846
Chew Fook Sin	5,262,564	2,631,282	–	7,893,846
Indirect interests				
Ir Lee Swee Eng	609,034	304,517	–	913,551
Gan Siew Liat	609,034	304,517	–	913,551

Directors' Report
for the year ended 31 December 2016
(cont'd)

DIRECTORS' INTERESTS (CONTINUED)

	Number of membership interest			
	At 1.1.2016	**Bought**	**Sold**	**At 31.12.2016**
Shareholdings in which a Director has direct interest in a subsidiary				
- KPS Technology & Engineering LLC				
Ir Lee Swee Eng	100,000	–	–	100,000

By virtue of their interests in the Company and pursuant to Section 8 of the Companies Act, 2016, Ir Lee Swee Eng, Gan Siew Liat and Chew Fook Sin are also deemed interested in the shares of the subsidiaries during the financial year to the extent that KNM Group Berhad has an interest.

Other than disclosed above, the other Director holding office as at 31 December 2016 had no interests in the ordinary shares, warrants and options over shares in the Company and 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 those fees and other benefits included in the aggregate amount of remuneration 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 27 to the financial statements.

There was no arrangement 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

There were no 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 option was granted to any person to take up unissued shares of the Company during the financial year apart from the issuance of the options pursuant to the ESOS.

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.

Directors' Report
for the year ended 31 December 2016 (cont'd)

OPTIONS GRANTED OVER UNISSUED SHARES (CONTINUED)

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

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.

The options offered to take up unissued ordinary shares and the option prices are as follows:

			Number of options				
Grant date	**Expiry date**	**Exercise price RM**	**At 1.1.2016**	**Granted and allocated**	**Exercised**	**Lapsed**	**At 31.12.2016**
25.7.2014	24.7.2022	0.65	24,833,276	–	–	(2,296,344)	22,536,932
25.7.2015	24.7.2022	0.65	24,634,009	–	–	(2,151,233)	22,482,776
25.7.2016	24.7.2022	0.65	–	22,397,946	–	–	22,397,946
			49,467,285	22,397,946	–	(4,447,577)	67,417,654

SHARE BUY-BACK

On 16 June 2016, the shareholders of the Company renewed the Company's plan to repurchase its own shares as disclosed in Note 14 to the financial statements.

During the financial year, the Company purchased 20,000 of its issued ordinary shares listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM0.40 per share. The total consideration paid was RM7,991 including transaction costs of RM91. 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 2016, the Company held 23,331,275 ordinary shares 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 2016 is 2,132,801,367 ordinary shares. The treasury shares have no rights to voting, dividends or participation in other distribution.

Directors' Report
for the year ended 31 December 2016 (cont'd)

INDEMNITY AND INSURANCE COSTS

During the financial year, the total amount of indemnity coverage given to Directors and officers of the Group pursuant to a Directors and Officers Liability Insurance is RM20,000,000.

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, other than as disclosed in Note 25.

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, the financial performance of the Group and of the Company for the financial year ended 31 December 2016 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 2016 (cont'd)

SIGNIFICANT EVENTS DURING THE YEAR

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

AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 20 to the financial statements.

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

....

Dato' Ab. Halim bin Mohyiddin
Director

....

Lee Swee Eng
Director

Kuala Lumpur,

Date: 26 April 2017

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Assets					
Property, plant and equipment	3	1,404,817	1,049,612	–	–
Goodwill	4	894,502	857,340	–	–
Other intangible assets	4	512,071	539,609	–	–
Interests in subsidiaries	5	–	–	1,808,622	1,718,941
Investments in associates	6	22	23	–	–
Investments in joint ventures	7	3,098	1,315	40	40
Other investments	8	525	10,522	–	–
Deferred tax assets	9	347,858	345,428	–	–
Total non-current assets		3,162,893	2,803,849	1,808,662	1,718,981
Inventories	10	73,732	74,675	–	–
Current tax assets		13,762	39,162	492	–
Trade and other receivables	11	969,950	1,184,376	205,080	209,768
Derivative financial assets	12	1,939	6,218	–	–
Cash and bank balances	13	419,183	198,857	218,038	269
Total current assets		1,478,566	1,503,288	423,610	210,037
Total assets		4,641,459	4,307,137	2,232,272	1,929,018
Equity					
Share capital		1,005,617	1,005,617	1,005,617	1,005,617
Share premium		782,971	782,971	782,971	782,971
Treasury shares		(53,422)	(53,414)	(53,422)	(53,414)
Reserves		650,252	983,620	149,341	150,063
Total equity attributable to owners of the Company	14	2,385,418	2,718,794	1,884,507	1,885,237
Non-controlling interests		3,455	(9,099)	–	–
Total equity		2,388,873	2,709,695	1,884,507	1,885,237

Statements of Financial Position
as at 31 December 2016
(cont'd)

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Liabilities					
Loans and borrowings	15	839,695	336,431	333,937	–
Long term payables	17	10,589	47,775	643	37,439
Long service leave liability		7,097	6,348	–	–
Deferred tax liabilities	9	191,054	218,595	–	–
Total non-current liabilities		1,048,435	609,149	334,580	37,439
Loans and borrowings	15	481,704	382,029	–	–
Current tax liabilities		2,069	1,278	–	597
Deferred income	18	120,383	155,307	–	–
Trade and other payables	19	588,063	426,506	13,185	5,745
Derivative financial liabilities	12	11,932	23,173	–	–
Total current liabilities		1,204,151	988,293	13,185	6,342
Total liabilities		2,252,586	1,597,442	347,765	43,781
Total equity and liabilities		4,641,459	4,307,137	2,232,272	1,929,018

The notes on pages 55 to 136 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Revenue					
Contract revenue		1,646,782	1,641,282	–	–
Management fees		–	–	5,702	6,360
		1,646,782	1,641,282	5,702	6,360
Cost of sales					
Contract costs recognised as an expense		(1,640,313)	(1,301,441)	–	–
Gross profit		6,469	339,841	5,702	6,360
Administration expenses		(199,497)	(218,797)	(6,420)	(8,892)
Other income		13,696	123,542	143	29
Other operating expenses		(96,165)	(78,843)	(13)	(235)
Results from operating activities	20	(275,497)	165,743	(588)	(2,738)
Finance costs	21	(44,422)	(36,636)	(5,841)	(862)
Finance income		2,132	1,371	5,777	11,337
Share of profit/(loss) of equity-accounted associates and joint ventures, net of tax		1,140	(6,343)	–	–
(Loss)/Profit before tax		(316,647)	124,135	(652)	7,737
Tax expense	22	(16,477)	(76,236)	(765)	(1,676)
(Loss)/Profit for the year		(333,124)	47,899	(1,417)	6,061
Items that are or may be reclassified subsequently to profit or loss					
Cash flow hedge		2,006	733	–	–
Foreign currency translation differences for foreign operations		30,845	361,872	–	–
Hedge of net investment in subsidiaries		(39,689)	(116,535)	–	–
Realisation of revaluation reserve on property, plant and equipment written off		1,904	–	–	–
Share of gain of equity-accounted associates/joint ventures		107	1,335	–	–
Other comprehensive (expense)/income for the year, net of tax		(4,827)	247,405	–	–
Total comprehensive (expense)/income for the year		(337,951)	295,304	(1,417)	6,061

Statements of profit or loss and other comprehensive income
for the year ended 31 December 2016
(cont'd)

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
(Loss)/Profit attributable to:					
Owners of the Company		(332,981)	49,527	(1,417)	6,061
Non-controlling interests		(143)	(1,628)	–	–
(Loss)/Profit for the year		(333,124)	47,899	(1,417)	6,061
Total comprehensive (expense)/ income attributable to:					
Owners of the Company		(334,063)	299,818	(1,417)	6,061
Non-controlling interests		(3,888)	(4,514)	–	–
Total comprehensive (expense)/ income for the year		(337,951)	295,304	(1,417)	6,061
Basic and diluted earnings per ordinary share (sen)	23	(15.61)	2.65		

The notes on pages 55 to 136 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

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 14.1		Note 14.2	Note 14.3	Note 14.4	Note 14.5	Note 14.6	Note 14.7				

Consolidated statement of changes in equity
for the year ended 31 December 2016 (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 2016	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
Foreign currency translation differences for foreign operations	–	–	–	–	34,590	–	–	–	–	34,590	(3,745)	30,845
Hedge of net investment	–	–	–	–	(39,689)	–	–	–	–	(39,689)	–	(39,689)
Cash flow hedge	–	–	–	–	–	–	2,006	–	–	2,006	–	2,006
Realisation of revaluation reserve on property, plant and equipment written off	–	–	–	(5,688)	–	–	–	–	7,592	1,904	–	1,904
Share of other comprehensive income of equity-accounted investees	–	–	–	–	107	–	–	–	–	107	–	107
Other comprehensive (expense)/income for the year	–	–	–	(5,688)	(4,992)	–	2,006	–	7,592	(1,082)	(3,745)	(4,827)
Loss for the year	–	–	–	–	–	–	–	–	(332,981)	(332,981)	(143)	(333,124)
Total comprehensive (expense)/income for the year	–	–	–	(5,688)	(4,992)	–	2,006	–	(325,389)	(334,063)	(3,888)	(337,951)
Contributions by and distributions to owners of the Company												
- Share buy-back	–	–	(8)	–	–	–	–	–	–	(8)	–	(8)
- Acquisition of equity interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	16,442	16,442
- Share-based payment	–	–	–	–	–	695	–	–	–	695	–	695
Total transactions with owners of the Company	–	–	(8)	–	–	695	–	–	–	687	16,442	17,129
At 31 December 2016	1,005,617	782,971	(53,422)	93,301	(212,700)	18,287	(2,337)	72,449	681,252	2,385,418	3,455	2,388,873
	Note 14.1		Note 14.2	Note 14.3	Note 14.4	Note 14.5	Note 14.6	Note 14.7				

The notes on pages 55 to 136 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Attributable to owners of the Company						
	Non-distributable					Distributable	
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
At 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 January 2016	1,005,617	782,971	(53,414)	17,592	72,449	60,022	1,885,237
Loss for the year/ Total comprehensive expense for the year	–	–	–	–	–	(1,417)	(1,417)
Contributions by and distributions to owners of the Company							
- Share buy-back	–	–	(8)	–	–	–	(8)
- Share-based payment	–	–	–	695	–	–	695
Total transactions with owners of the Company	–	–	(8)	695	–	–	687
At 31 December 2016	1,005,617	782,971	(53,422)	18,287	72,449	58,605	1,884,507
	Note 14.1		Note 14.2	Note 14.5	Note 14.7		

The notes on pages 55 to 136 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Cash flows from operating activities					
(Loss)/Profit before tax		(316,647)	124,135	(652)	7,737
Adjustments for:					
Amortisation of intangible assets		32,491	35,102	–	–
Change in fair value of forward contract		(9,608)	5,162	–	–
Depreciation of property, plant and equipment		6,857	8,700	–	–
(Gain)/Loss on disposal of:					
- Property, plant and equipment		(199)	–	–	–
- Other investments		–	257	–	–
- Subsidiaries		–	(19,880)	–	–
(Gain)/Loss on foreign exchange					
- Unrealised		(2,353)	(97,556)	(128)	187
Interest expense		36,670	30,493	5,839	859
Interest income		(2,132)	(1,371)	(5,777)	(11,337)
Property, plant and equipment written off		1,185	–	–	–
Bad debts written off		7,431	1,320	–	–
Provision for foreseeable losses		279	55	–	–
Provision for late delivery charges		447	-	–	–
Provision for warranty		18,273	9,252	–	–
Impairment:					
- Other investments		–	3,987	–	–
- Property, plant and equipment		11,347	–	–	–
- Receivables		27,060	2,158	–	28
Share-based payments	16	695	5,575	314	2,309
Share of (gain)/loss of equity-accounted associates/joint venture, net of tax		(1,140)	6,343	–	–
Operating (loss)/profit before changes in working capital		(189,344)	113,732	(404)	(217)
Changes in working capital:					
Inventories		2,266	5,917	–	–
Trade and other receivables	(i)	124,747	28,983	3,094	(2,588)
Trade and other payables		(119,605)	(115,469)	(29,245)	(690)
Cash (used in)/generated from operations		(181,936)	33,163	(26,555)	(3,495)
Tax paid		(4,569)	(19,135)	(1,854)	(1,576)
Interest paid		(370)	(560)	–	–
Interest received		2,132	1,371	5,777	11,337
Net cash (used in)/generated from operating activities		(184,743)	14,839	(22,632)	6,266

Statements of cash flows
for the year ended 31 December 2016 (cont'd)

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Cash flows from investing activities					
Acquisition of other intangible assets		(2,050)	(1,973)	–	–
Acquisition of property, plant and equipment	(ii)	(24,635)	(50,431)	–	–
Acquisition of subsidiaries, net of cash acquired	32	(69,310)	–	–	(1,794)
Government grants received		–	6,364	–	–
Change in pledged deposits		(94)	12,849	–	–
Disposal of subsidiaries, net of cash		–	(4,834)	–	–
Proceeds from disposal of					
- Other investments		–	176	–	–
- Property, plant and equipment		6,673	–	–	–
Repayments to subsidiary	(i)	–	–	(87,689)	(254,849)
Net cash used in investing activities		(89,416)	(37,849)	(87,689)	(256,643)
Cash flows from financing activities					
Interest paid		(36,300)	(29,933)	(5,839)	(859)
Net proceeds from/ (repayments of)					
- Bills payable		89,780	(25,948)	–	–
- Finance lease liabilities		(8,850)	(6,860)	–	–
Net proceeds from/(repayments of) term loans and revolving credit		479,690	(52,205)	333,937	–
Proceeds from issuance of shares		-	258,555	–	258,555
Share buy-back		(8)	(12)	(8)	(12)
Share issue expenses		–	(7,188)	–	(7,188)
Net cash generated from financing activities		524,312	136,409	328,090	250,496
Net increase in cash and cash equivalents		250,153	113,399	217,769	119
Effect of foreign currency translation		(32,318)	(113,183)	–	–
Cash and cash equivalents at beginning of year		193,884	193,668	269	150
Cash and cash equivalents at end of year	(iii)	411,719	193,884	218,038	269

Statements of cash flows
for the year ended 31 December 2016 (cont'd)

Notes to statements of cash flows:

(i) Non cash transactions

During the financial year, the Company increased its investment in subsidiary by RM7,000,000 through capitalisation of the said amount owing by the subsidiary.

(ii) Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM108,834,000 (2015: RM142,649,000 after deducting government grant received of RM6,364,000). Property, plant and equipment of RM10,934,000 (2015: RM10,032,000) was acquired by means of hire purchase and RM73,265,000 (2015: RM88,550,000) was self-constructed assets.

(iii) Cash and cash equivalents

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

		Group		Company	
	Note	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Cash and bank balances	13	416,479	193,685	218,038	269
Deposits with licensed banks and financial institutions	13	2,704	5,172	–	–
Less: Pledged deposits	13	(2,554)	(2,460)	–	–
		416,629	196,397	218,038	269
Less: Bank overdrafts	15	(4,910)	(2,513)	–	–
		411,719	193,884	218,038	269

The notes on pages 55 to 136 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:

Principal place of business and registered office
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 2016 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 financial year ended 31 December 2016 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 31 to the financial statements.

These financial statements were authorised for issuance by the Board of Directors on 26 April 2017.

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 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 2017
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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

Notes to the financial statements
(continued)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- MFRS 16, *Leases*

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

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

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

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

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, Construction Contracts, MFRS 118, Revenue, IC Interpretation 13, Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfers of Assets from Customers and IC Interpretation 131, Revenue – Barter Transactions Involving Advertising Services. 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 that may arise from the adoption of 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 and financial liabilities, and on hedge accounting.

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 that may arise from the adoption of MFRS 9.

MFRS 16, *Leases*

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

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

(b) Basis of measurement

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

Notes to the financial statements
(continued)

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

  A subsidiary has recognised deferred tax assets amounting to RM337,583,000. 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 against which the related tax benefit will be utilised.

Notes to the financial statements
(continued)

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 contract costs and profits

  The Group recognises contracts costs and 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 costs and profits recognised. Construction contract costs include all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

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.

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.

Notes to the financial statements
(continued)

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 associate, 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 associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate 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 associate 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.

Notes to the financial statements
(continued)

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 associate 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(k)(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
(continued)

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.

Notes to the financial statements
(continued)

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 in the statement of financial position.

Notes to the financial statements
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(ii) Operating lease (continued)

Payment 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 at 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) Construction work-in-progress

Construction 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.

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.

(j) 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.

(k) 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.

Notes to the financial statements
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(i) Financial assets (continued)

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.

(ii) Other assets

The carrying amounts of other assets (except for inventories, amount due from contract customers, and deferred tax assets) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(ii) Other assets (continued)

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.

(l) 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.

(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.

Notes to the financial statements
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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.

(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 behaviour), 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.

(n) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(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.

(p) 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 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.

Notes to the financial statements
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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.

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.

(r) 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.

(s) 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)

(t) 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.

(u) 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
(continued)

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 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/ 1 January 2016		252,450	473,345	5,213	608,944	15,772	106,495	116,781	1,579,000
Additions		8	263	5,753	15,536	3,531	5,197	78,546	108,834
Disposals		–	–	–	(7,095)	(1,234)	(473)	–	(8,802)
Reclassification		–	(29,629)	–	8,049	–	–	21,580	–
Write offs		–	(1,235)	–	–	(746)	(8)	(1,511)	(3,500)
Acquisition of subsidiaries	32	7,697	–	24	–	–	52	330,452	338,225
Effect of movements in exchange rates		(20,412)	12,138	318	8,586	363	11,357	(5,553)	6,797
At 31 December 2016		239,743	454,882	11,308	634,020	17,686	122,620	540,295	2,020,554

Notes to the financial statements
(continued)

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 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/ 1 January 2016									
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
Depreciation for the year		286	14,658	774	37,228	1,129	7,677	–	61,752
Disposals		–	–	–	(823)	(1,234)	(271)	–	(2,328)
Write offs		–	(1,619)	–	–	(688)	(8)	–	(2,315)
Impairment loss		–	11,347	–	–	–	–	–	11,347
Effect of movements in exchange rates		(6)	38	152	9,033	359	8,317	–	17,893
At 31 December 2016									
Accumulated depreciation		826	31,097	1,358	455,513	12,378	96,907	–	598,079
Accumulated impairment loss		4,353	11,347	–	1,958	–	–	–	17,658
		5,179	42,444	1,358	457,471	12,378	96,907	–	615,737
Carrying amounts									
At 1 January 2015		217,967	402,282	3,816	198,197	3,455	26,175	1,007	852,899
At 31 December 2015/ 1 January 2016		247,551	455,325	4,781	196,911	2,960	25,303	116,781	1,049,612
At 31 December 2016		234,564	412,438	9,950	176,549	5,308	25,713	540,295	1,404,817

Notes to the financial statements
(continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.1 Depreciation charge for the year is allocated as follows:

	Note	Group 2016 RM'000	Group 2015 RM'000
Construction work-in-progress	11.1	54,895	53,599
Profit or loss	20	6,857	8,700
		61,752	62,299

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 2016 RM'000	Group 2015 RM'000
Freehold land	156,486	177,783
Leasehold land	11,551	34,199
Buildings	367,816	390,042
	535,853	602,024

3.3 Security

Certain freehold land and buildings of the Group costing/valued at RM316,252,000 (2015: RM352,135,000) in subsidiaries are charged to certain financial institutions as security for credit facilities granted to the subsidiaries (Note 15).

3.4 Land

Included in the carrying amount of land is:

	Group 2016 RM'000	Group 2015 RM'000
Leasehold land		
- Unexpired period less than 50 years	30,313	29,707
- Unexpired period more than 50 years	15,361	15,353
Freehold land	188,890	202,491
	234,564	247,551

Notes to the financial statements
(continued)

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 2016 RM'000	Group 2015 RM'000
Freehold land	5,342	5,305
Building	11,526	12,154
Plant and machineries	40,561	37,231
Motor vehicles	3,491	1,100
	60,920	55,790

3.6 Capital work-in-progress

Included in carrying amounts of capital work-in-progress are costs of self-constructed assets of RM484,114,000 (2015: RM88,550,000).

3.7 Impairment

During the financial year under review, an impairment loss of RM11,347,000 (2015: nil) was made after having assessed that the building's carrying amount would exceed its recoverable amount, determined based on fair value less costs of disposal in accordance with Note 2(k). No reversals of impairment were recognised, as the management has not identified any indications that the impairment loss had decreased or no longer exists.

4. INTANGIBLE ASSETS

Group	Note	Goodwill RM'000	Other intangible assets RM'000	Total RM'000
Cost				
At 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 2015/1 January 2016		860,134	856,214	1,716,348
Acquisition of subsidiaries	32	31,170	–	31,170
Additions		–	2,050	2,050
Effect of movements in exchange rates		5,992	5,985	11,977
At 31 December 2016		897,296	864,249	1,761,545

Notes to the financial statements
(continued)

4. INTANGIBLE ASSETS (CONTINUED)

Group	Note	Goodwill RM'000	Other intangible assets RM'000	Total RM'000
Amortisation and impairment loss				
At 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 2015/1 January 2016				
Accumulated amortisation		–	(316,605)	(316,605)
Accumulated impairment loss		(2,794)	–	(2,794)
		(2,794)	(316,605)	(319,399)
Amortisation for the year		–	(32,491)	(32,491)
Effect of movements in exchange rates		–	(3,082)	(3,082)
At 31 December 2016				
Accumulated amortisation		–	(352,178)	(352,178)
Accumulated impairment loss		(2,794)	–	(2,794)
		(2,794)	(352,178)	(354,972)
Carrying amounts				
At 1 January 2015		772,885	519,036	1,291,921
At 31 December 2015/1 January 2016		857,340	539,609	1,396,949
At 31 December 2016		894,502	512,071	1,406,573
		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, petrochemical and renewable energy industry.

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. INTANGIBLE ASSETS (CONTINUED)

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 testing for cash-generating units containing goodwill

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

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	Group	
	2016	**2015**
	RM'000	**RM'000**
Germany unit	863,332	857,340
Thailand unit	31,170	–
	894,502	857,340

For the Thailand unit, goodwill arises from the acquisition of the entire equity interest in Asia Bio-fuels Limited and Asia Biofuels II Ltd., and is a provisional amount subject to finalisation of the purchase price allocation exercise.

For 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 1.5% (2015: 2.0%).

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 secured for the budgeted years.

(ii) The after-tax discount rate used is as follows:

	2016	**2015**
	%	**%**
Germany unit	8	9

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

The above estimates are particularly sensitive in the following areas:

- An increase of 1.36% (2015: 1.36%) in the discount rate used for the Germany unit would result in an impairment loss of RM100.9 million (2015: RM28.2 million).

- A decrease of 3.00% (2015: 3.00%) in estimated growth rate in cash flow beyond the first 5 year period used for Germany unit would not result in an impairment loss (2015: RM11.7 million).

Notes to the financial statements
(continued)

5. INTERESTS IN SUBSIDIARIES

	Company 2016 RM'000	Company 2015 RM'000
Unquoted shares - at cost	1,660,191	1,653,190
Less: Impairment loss	(100)	(100)
Amount due from subsidiaries	148,531	65,851
	1,808,622	1,718,941

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 31 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 2016 RM'000	Group 2015 RM'000
Unquoted shares - at cost	40	40
Share of post-acquisition reserve	(18)	(17)
	22	23

Details of the associates are as follows:

Name of Company	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	Effective ownership interest and voting interest 2015 %
Dimensi Bumijaya Sdn. Bhd.**	Dormant	Malaysia	40	40
Konsortium AHHK Sdn. Bhd. ^	Dormant	Malaysia	29	29
Impress Farming Co., Ltd. **	Plantation and distributor of cassava	Thailand	49	–

** Audited by another firm of accountants.
^ Equity-accounted using management accounts as at 31 December 2016.

7. INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted shares - at cost	5,044	4,023	40	40
Share of post acquisition reserve	(2,482)	(3,729)	–	–
Additions	400	1,278	–	–
Disposal	–	(428)	–	–
Effect of movements in exchange rates	136	171	–	–
	3,098	1,315	40	40

Details of the joint ventures are as follows:

Name of Company	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
Petrosab Petroleum Sdn. Bhd. **	Investment holdings	Malaysia	40	40
CNI Engineering & Construction Malaysia Sdn. Bhd.	Engineering, procurement, construction, service fabrication and maintenance works for mechanical, electrical and erection related to oil and gas, power, petrochemical and renewable energy industries	Malaysia	70	70
Hansol KNM Greentech Sdn. Bhd.**	Engineering, Procurement, Construction, Commissioning ("EPCC") contractor	Malaysia	40	40
KHH Infrastructures Sdn. Bhd.**	Provision of all kinds of infrastructure, civil engineering, building and construction, project development, roadwork, sanitary facilities and utilities, engineering works and consultancy services for all industries	Malaysia	50	–
Subsidiary of Petrosab Petroleum Sdn. Bhd.				
Petrosab Petroleum Engineering Sdn. Bhd. **	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	Malaysia	52	52

** Audited by another firm of accountants.

Notes to the financial statements
(continued)

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.

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

	Group	
	2016 RM'000	**2015 RM'000**
As at 31 December		
Group's share of net assets/Carrying amount in the statement of financial position	3,098	1,315
Group's share of results for the year ended 31 December		
Group's share of profit/(loss) for the year	1,140	(6,343)
Group's share of other comprehensive income	107	1,335
Group's share of total comprehensive income/(expense)	1,247	(5,008)
Contingent liability		
Share of joint venture's contingent liability incurred jointly with other investor:		
- Guaranteed bank facilities	53,383	–

Notes to the financial statements
(continued)

8. OTHER INVESTMENTS

Group	Unquoted Shares RM'000	Club Member-ship RM'000	Redeemable Convertible Preference Shares RM'000	Total RM'000
2016				
Non-current				
Available-for-sale financial asset	2,327	70	–	2,397
Less: Impairment loss	(1,862)	(10)	–	(1,872)
	465	60	–	525
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

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.

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 cashflows.

Notes to the financial statements
(continued)

9. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Property, plant and equipment	4,133	4,620	(21,189)	(22,019)	(17,056)	(17,399)
Revaluation*	13,428	13,334	(214,484)	(242,625)	(201,056)	(229,291)
Provisions	8,024	9,222	–	–	8,024	9,222
Other items	21,882	19,408	(725)	(931)	21,157	18,477
Tax loss carry-forward and unutilised capital allowances	345,735	345,824	–	–	345,735	345,824
Tax assets/ (liabilities)	393,202	392,408	(236,398)	(265,575)	156,804	126,833
Set off of tax	(45,344)	(46,980)	45,344	46,980	–	–
Net tax assets/(liabilities)	347,858	345,428	(191,054)	(218,595)	156,804	126,833

* 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 2016 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	
	2016 RM'000	**2015 RM'000**
Tax loss carry-forward	281,932	46,484
Unutilised capital allowances	12,268	4,237

The above items do not expire under current tax legislation except for tax loss carry-forward of RM6,000 (2015: RM107,000) which will expire should there be a substantial change in shareholders (more than 50%).

Notes to the financial statements
(continued)

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

Unrecognised deferred tax assets (continued)

Beside the above, a tax loss carry-forward relating to an oversea subsidiary of RM5,279,000 will expire in 5 years (2015: RM8,065,000 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 therefrom.

Movement in temporary differences during the year

Group	At 1.1.2015 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	Recognised in equity (Note 22) RM'000	Recognised in profit or loss (Note 22) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2016 RM'000
Property, plant and equipment	(19,263)	1,864	–	(17,399)	–	343	–	(17,056)
Revaluation*	(229,567)	(59,563)	59,839	(229,291)	1,904	(16,035)	42,366	(201,056)
Provisions	14,115	(4,893)	–	9,222	–	(1,198)	–	8,024
Other items	17,410	1,067	–	18,477	–	2,680	–	21,157
Tax loss carry-forward and unutilised capital allowance	340,114	5,710	–	345,824	–	(89)	–	345,735
	122,809	(55,815)	59,839	126,833	1,904	(14,299)	42,366	156,804

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

10. INVENTORIES

	Group 2016 RM'000	Group 2015 RM'000
At cost:		
Raw materials	14,094	22,004
Tools and consumables	36,066	34,421
Work-in-progress	2,612	–
	52,772	56,425
At net realisable value:		
Raw materials	20,040	17,015
Tools and consumables	920	1,235
	73,732	74,675

Notes to the financial statements
(continued)

11. TRADE AND OTHER RECEIVABLES

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Trade					
Trade receivables		439,138	546,926	–	–
Amount due from contract customers	11.1	404,013	504,885	–	–
		843,151	1,051,811	–	–
Non-trade					
Amount due from					
- subsidiaries	11.2	–	–	198,004	199,787
- associates	11.2	1	3	–	2
- joint ventures	11.2	23,016	15,570	4,101	4,040
Other receivables	11.3	48,497	47,503	640	3,816
Deposits	11.4	5,499	18,798	3	3
Prepayments	11.5	49,786	50,691	2,332	2,120
		126,799	132,565	205,080	209,768
		969,950	1,184,376	205,080	209,768

11.1 Construction work-in-progress

	Note	Group 2016 RM'000	Group 2015 RM'000
Aggregate costs incurred to date		7,160,177	4,216,870
Add: Net attributable profits		1,615,745	1,267,222
Less: Foreseeable losses		(289)	(1,031)
		8,775,633	5,483,061
Less: Progress billings		(8,492,003)	(5,133,483)
		283,630	349,578
Represented by:			
Amount due from contract customers		404,013	504,885
Amount due to contract customers	18	(120,383)	(155,307)
		283,630	349,578

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

11.1 Construction work-in-progress (continued)

Additions to aggregate costs incurred during the year include:

		Group	
		2016	**2015**
	Note	**RM'000**	**RM'000**
Depreciation of property, plant and equipment	3.1	54,895	53,599
Hire of plant and machineries		10,429	5,532
Rental of premises		16,056	11,058
Rental of machineries		262	222
Staff costs		325,043	277,419

11.2 Amounts due from subsidiaries, associates and joint ventures

The amounts due from subsidiaries are unsecured, interest free and repayable on demand except for RM126,412,000 (2015: RM15,552,000) due from subsidiaries which are subject to interest of 6.25% (2015: 6.20%) per annum.

The amount due from joint ventures and associates are unsecured, interest free and repayable on demand except for RM5,979,000 (2015: RM28,000) due from joint ventures which are subject to interest of 1.52% (2015: 3.89%) per annum.

During the financial year, an amount due from subsidiaries of RM7,000,000 has been capitalised as interest in subsidiaries via subscription of ordinary shares in a subsidiary.

11.3 Other receivables

Included in other receivables of the Group and the Company are Goods and Services Tax ("GST") and Value Added Tax ("VAT") receivable amounting to RM15,650,000 (2015: RM7,179,000) and RM242,000 (2015: RM161,000) respectively.

11.4 Deposits

Included in deposits of the Group are rental deposit for a building of RM165,000 (2015: RM165,000) paid to a company in which certain directors have financial interest.

11.5 Prepayments

Included in prepayments of the Group are advance payments to suppliers of RM39,068,000 (2015: RM28,728,000).

Notes to the financial statements
(continued)

12. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

	2016			2015		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Group						
Derivatives held for trading at fair value through profit or loss						
- Forward foreign exchange contracts ("FFEC")	135,760	1,930	(9,576)	302,756	6,217	(22,824)
Derivatives used for hedging	49,939	9	(2,356)	117,963	1	(349)
	185,699	1,939	(11,932)	420,719	6,218	(23,173)

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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and bank balances	416,479	193,685	218,038	269
Deposits with licensed banks	2,704	5,172	–	–
	419,183	198,857	218,038	269

Included in the deposits placed with licensed banks of the Group is RM2,554,000 (2015: RM2,460,000) pledged for bank facilities.

Notes to the financial statements
(continued)

14. CAPITAL AND RESERVES

14.1 Share capital

	Group and Company			
	Number of shares 2016 '000	**Amount 2016 RM'000**	**Number of shares 2015 '000**	**Amount 2015 RM'000**
Ordinary shares				
Authorised:				
At 1 January / 31 December	5,000,000	2,500,000	5,000,000	2,500,000
Issued and fully paid shares:				
At 1 January	2,156,133	1,005,617	1,639,035	774,537
Issued for cash under				
- Rights issue	–	–	323,158	161,579
- Private placement	–	–	193,894	96,947
- ESOS	–	–	46	22
Allocation of warrant reserve	–	–	–	(27,468)
At 31 December	2,156,133	1,005,617	2,156,133	1,005,617

14.2 Treasury shares

On 16 June 2016, 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 listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM0.40 per share. The total consideration paid was RM7,991 including transaction costs of RM91. 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 2016, the Company held 23,331,275 ordinary shares 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 2016 is 2,132,801,367 ordinary shares. The treasury shares have no rights to voting, dividends or participation in other distribution.

14.3 Revaluation reserve

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

14.4 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.

14.5 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 16.

Notes to the financial statements
(continued)

14. CAPITAL AND RESERVES (CONTINUED)

14.6 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.

14.7 Warrant reserve

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 (2015: 517,675,629 Warrant A and 161,578,504 Warrant B). Both Warrant A and Warrant B will expire on 15 November 2017 and 21 April 2020 respectively.

15. LOANS AND BORROWINGS

			Group	
		Note	2016 RM'000	2015 RM'000
Non-current				
Floating rate term loans	- secured		48,780	189,440
	- unsecured		46,363	91,797
Fixed rate term loans	- unsecured		35,888	34,344
Fixed rate guaranteed Thai Baht bonds		15.7	333,937	–
Revolving credit	- secured		206,907	–
	- unsecured		146,434	–
Floating rate finance lease liabilities			1,823	6,238
Fixed rate finance lease liabilities			19,563	14,612
			839,695	336,431
Current				
Bank overdrafts	- secured		4,910	2,513
Bills payable	- secured		26,362	19,642
	- unsecured		156,012	72,952
Floating rate term loans	- secured		51,224	33,879
	- unsecured		61,413	135,821
Fixed rate term loans	- secured		12,914	32,093
	- unsecured		–	466
Revolving credit	- secured		25,188	–
	- unsecured		135,391	77,923
Floating rate finance lease liabilities			4,470	4,760
Fixed rate finance lease liabilities			3,820	1,980
			481,704	382,029
			1,321,399	718,460

		Company	
		2016 RM'000	2015 RM'000
Non-current			
Fixed rate guaranteed Thai Baht bonds	15.7	333,937	–

15. LOANS AND BORROWINGS (CONTINUED)

15.1 The secured trade facilities of the Group are secured by way of:

(i) Legal charge over the industrial land and buildings of certain subsidiaries (Note 3.3).

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

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

In respect of the Group for the financial year ended 31 December 2016:

a. Minimum consolidated total networth of RM1.5 billion.

b. The Group's consolidated debt to equity ratio shall not be more than 1.00 times (2015: 1.75 times) at all times.

c. The Group's consolidated secured debt to consolidated total assets shall not be more than 0.4 times.

d. The Group's EBITDA over interest expense shall not be less than 2.0 times.

e. Not to dispose off 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).

f. Not to dispose off or divest any of its material subsidiaries.

g. The Group's consolidated Finance Service Cover Ratio (FSCR ratio) shall not be less than 1.5 times (2015: 1.5 times).

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 2016 shall exceed a ratio of 4.50 times (2015: 4.50 times).

b. Maintenance of leverage ratio of not more than 2.0 times (2015: 2.5 times) for the financial year ended 31 December 2016.

c. Working Capital Cover ratio for periods ending on or after 31 March 2016 shall be equal to or more than 120% (2015: 120%).

d. Minimum Equity for the financial year ended 31 December 2016 shall not be less than 30.0% (2015: 30.0%).

15.2 The secured term loans of the Group are secured by way of:

(i) Legal charge over the industrial land and buildings of certain subsidiaries (Note 3.3).

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

In respect of a foreign subsidiary, the covenants as disclosed in Note 15.1(iii) are also applicable.

Notes to the financial statements
(continued)

15. LOANS AND BORROWINGS (CONTINUED)

15.3 The unsecured term loans of the Group are supported by way of corporate guarantee from the Company.

15.4 The unsecured revolving credit of the Group is supported by way of corporate guarantee from the Company.

15.5 The secured revolving credit of the Group is supported mainly by a first party pledge of fixed deposit and a debenture over the entire assets of a subsidiary specifically formed to undertake such secured revolving credit.

Covenants to be assessed semi-annually in connection with the revolving credit include the following:

(i) The Group's consolidated Debt Service Cover Ratio (DSCR) shall not be less than 1.25 times (2015: 1.25 times).

(ii) The Group's consolidated debt to equity ratio shall not be more than 1.00 times (2015: 1.50 times).

15.6 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2016 RM'000	Interest 2016 RM'000	Present value of minimum lease payments 2016 RM'000	Future minimum lease payments 2015 RM'000	Interest 2015 RM'000	Present value of minimum lease payments 2015 RM'000
Less than one year	9,441	(1,151)	8,290	7,752	(1,012)	6,740
Between one and five years	15,432	(2,174)	13,258	14,181	(1,933)	12,248
More than five years	9,038	(910)	8,128	9,809	(1,207)	8,602
	33,911	(4,235)	29,676	31,742	(4,152)	27,590

The finance lease liabilities are subject to interest ranging from 1.79% to 6.30% (2015: 1.88% to 6.25%) per annum.

15.7 On 18 November 2016, the Company completed the issuance of Thai Baht bonds amounting to THB2,780 million (equivalent to approximately RM333.9 million). These bonds are guaranteed by Credit Guarantee and Investment Facility ("CGIF"), a trust fund of the Asian Development Bank and fully underwritten by United Overseas Bank (Thai) Public Company Limited ("Guaranteed Thai Bonds"). The Guaranteed Thai Bonds has a tenure of 5-years from date of issuance. Proceeds from the Guaranteed Thai Bonds will be utilised by a subsidiary, Impress Ethanol Co., Ltd. ("IEL"), to refinance its existing term loan, finance future plant expansion and for working capital financing of its bio-ethanol plant in Thailand.

16. 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
Options granted on 25.7.2016	22,398	Employee in service on grant date	6 years
	74,200		

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

	2016		2015	
	Exercise price	Number of options '000	Exercise price	Number of options '000
Outstanding at 1 January	RM0.65	49,467	RM0.66	24,264
Adjusted during the year	RM0.65	–	RM0.65	1,439
Granted during the year	RM0.65	22,398	RM0.65	24,956
Exercised during the year	RM0.65	–	RM0.65	(46)
Lapsed during the year	RM0.65	(4,448)	RM0.65	(1,146)
Outstanding at 31 December	RM0.65	67,417	RM0.65	49,467
Exercisable at 31 December	RM0.65	67,417	RM0.65	49,467

The options outstanding at 31 December 2016 have an exercise price of RM0.65 and a weighted average contractual life of 6 years.

Notes to the financial statements
(continued)

16. EMPLOYEE BENEFITS (CONTINUED)

Share-based payment arrangement (continued)

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	**2016**	**2015**
Fair value at grant date	RM0.04	RM0.18
Weighted average share price	RM0.33	RM0.51
Share price at grant date	RM0.41	RM0.60
Expected volatility	43.35%	47.55%
Option life	5.6 years	6.4 years
Expected dividends	3.09%	3.09%
Risk-free interest rate	3.90%	4.05%

Value of employee services received for issue of share options

	Group		**Company**	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total expense recognised as share-based payments	695	5,575	314	2,309

The total expense for the year is not fully recognised in the profit or loss of the Company as RM381,000 (2015: RM3,266,000) has been re-charged to the respective subsidiaries whose employees are eligible for the ESOS.

17. LONG TERM PAYABLES

		Group		**Company**	
	Note	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Social security institutions	17.1	9,946	10,336	–	–
Other long term payables	17.2	643	37,439	643	37,439
		10,589	47,775	643	37,439

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

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

18. DEFERRED INCOME

	Note	Group 2016 RM'000	Group 2015 RM'000
Amount due to contract customers	11.1	120,383	155,307

19. TRADE AND OTHER PAYABLES

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Trade					
Trade payables	19.1	381,796	282,102	–	–
Non-trade					
Amount due to					
- subsidiaries	19.2	–	–	711	824
- associates	19.2	1,526	88	–	–
- joint ventures	19.2	7	875	–	–
- related parties	19.2	26,321	31,941	–	–
Other payables		72,661	29,566	11,053	3,843
Accrued expenses		105,752	81,934	1,421	1,078
		206,267	144,404	13,185	5,745
		588,063	426,506	13,185	5,745

19.1 Included in prior year trade payables was an amount due to a related party which amounted to RM58,000.

19.2 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.

Notes to the financial statements
(continued)

20. RESULTS FROM OPERATING ACTIVITIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Results from operating activities is arrived at after charging:				
Auditors' remuneration:				
- Audit fees:				
KPMG in Malaysia:				
- Current year	669	565	180	150
- Prior year	243	(5)	148	(5)
Overseas affiliates of KPMG in Malaysia	2,065	2,160	–	–
Other auditors	101	109	–	–
- Non-audit fees:				
KPMG Malaysia	18	10	18	10
Local affiliates of KPMG in Malaysia	218	118	9	9
Overseas affiliates of KPMG in Malaysia	823	462	–	–
Other auditors	10	–	–	–
Depreciation of property, plant and equipment (Note 3.1)	6,857	8,700	–	–
Amortisation of intangible assets	32,491	35,102	–	–
Bad debts written off	7,431	1,320	–	–
Impairment loss:				
- Other receivables	2,756	28	–	28
- Other investment	–	3,987	–	–
- Property, plant and equipment	11,347	–	–	–
- Trade receivables	24,304	6,156	–	–
Loss on disposal of other investment	–	257	–	–
Net loss on foreign exchange:				
- Unrealised	–	–	–	187
- Realised	12,129	–	–	–
Change in fair value of forward contract	-	5,162	–	–
Rental of equipment	4,325	3,261	–	–
Rental of premises	8,051	15,786	–	–
Personnel expenses:				
- Contribution to Employees' Provident Fund	9,195	9,276	–	–
- Share-based payments	695	5,575	314	2,309
- Wages, salaries and others	143,473	154,635	10	200
Provision for foreseeable losses	279	55	–	–
Provision for late delivery charges	447	–	–	–
Provision for warranty	18,273	9,252	–	–
Property, plant and equipment written off	1,185	–	–	–

Notes to the financial statements
(continued)

20. RESULTS FROM OPERATING ACTIVITIES (CONTINUED)

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
and after crediting:				
Gain on disposal of:				
- Property, plant and equipment	199	–	–	–
- Subsidiaries	–	19,880	–	–
Net gain on foreign exchange:				
- Realised	–	981	2	10
- Unrealised	2,353	97,556	128	–
Gain on fair value of forward contract	9,608	–	–	–
Rental income from property	–	54	–	–
Reversal of impairment loss of trade receivables	–	4,026	–	–
Reversal of provision for late delivery charges	–	849	–	–

21. FINANCE COSTS

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Interest expenses of financial liabilities that are not at fair value through profit or loss:				
- Term loans	17,440	20,517	5,839	–
- CP/MTN	1,255	543	–	–
- Revolving credit	16,771	7,819	–	859
- Bank overdrafts	370	560	–	–
- Finance lease	834	1,054	–	–
	36,670	30,493	5,839	859
Bank and other charges	7,752	6,143	2	3
	44,422	36,636	5,841	862
Interest expenses:				
- Recognised in profit or loss	44,422	36,636	5,841	862

Notes to the financial statements
(continued)

22. TAX EXPENSE

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Current tax expense				
Malaysian				
- Current year	1,352	2,450	803	1,697
- (Over)/Under provision in prior year	(1,056)	545	(38)	(21)
Overseas				
- Current year	30,364	15,956	–	–
- Under provision in prior year	116	1,470	–	–
	30,776	20,421	765	1,676
Deferred tax expense				
- Current year	(14,299)	55,791	–	–
- Under provision in prior year	–	24	–	–
	(14,299)	55,815	–	–
Total tax expense	16,477	76,236	765	1,676
Reconciliation of tax expense				
(Loss)/Profit for the year	(333,124)	47,899	(1,417)	6,061
Total income tax expense	16,477	76,236	765	1,676
(Loss)/Profit before tax	(316,647)	124,135	(652)	7,737
Income tax using Malaysian tax rate of 24% (2015: 25%)	(75,995)	31,034	(157)	1,934
Effect of tax rates in foreign jurisdictions*	670	287	–	–
Non-deductible expenses	26,511	46,846	960	742
Effect of change in tax rate	–	18	–	–
Tax exempt income	(6,657)	(695)	–	(979)
Effect of tax losses not recognised	73,934	467	–	–
Utilisation of previously unrecognised temporary differences	(1,489)	(4,151)	–	–
Others	443	391	–	–
	17,417	74,197	803	1,697
Under/(Over) provision in prior year				
- Current tax expense	(940)	2,015	(38)	(21)
- Deferred tax expense	–	24	–	–
	16,477	76,236	765	1,676

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

22. TAX EXPENSE (CONTINUED)

Tax recognised directly in equity

	Group	
	2016 RM'000	**2015 RM'000**
Reversal of deferred tax liabilities arising from disposal of property, plant and equipment (Note 9)	1,904	–

23. EARNINGS PER ORDINARY SHARE - GROUP

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2016 was based on the loss attributable to owners of the Company of RM332,981,000 (2015: profit attributable to owners of the Company of RM49,527,000) and the weighted average number of ordinary shares outstanding during the year of 2,132,815,000 (2015: 1,867,393,000).

	2016 '000	**2015 '000**
Issued ordinary shares at beginning of the year	2,156,133	1,639,035
ESOS	–	37
Issuance of shares	–	27,623
Effect of treasury shares held	(23,318)	(23,298)
Rights issue	–	223,996
Weighted average number of ordinary shares	2,132,815	1,867,393

	2016 Sen	**2015 Sen**
Basic earnings per ordinary share	(15.61)	2.65

Diluted earnings per ordinary share

Diluted earnings per ordinary share of the Group is calculated by dividing the loss attributable to owners of the Company for the financial year by the weighted average number of shares in issue and issuable under the ESOS options and warrants. The ESOS options and warrants are excluded from the computation of diluted earnings per ordinary share as the ESOS options and warrants are out-of-the-money as at the end of the financial year and do not have any potential dilutive effect. Thus, the Group's diluted earnings per ordinary share at 31 December 2015 and 2016 are equivalent to its basic earnings per ordinary share as disclosed above.

24. DIVIDENDS

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

Notes to the financial statements
(continued)

25. CONTINGENT LIABILITIES

	Group	
	2016 RM'000	2015 RM'000
Contingent liability		
Guarantees issued for borrowings of subsidiaries		
- Secured	354,306	250,250
- Unsecured	1,189,037	772,823
	1,543,343	1,023,073
Share of joint venture's contingent liability incurred jointly with other investor:		
- Guaranteed bank facilities	53,383	–

26. COMMITMENTS

	Group	
	2016 RM'000	2015 RM'000
Capital commitments:		
Property, plant and equipment		
- Contracted but not provided for in the financial statements	8,662	63,762
- Authorised but not contracted for	6,975	8,851
	15,637	72,613
Joint venture commitments:		
Capital commitments for the joint ventures	–	761

27. 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.

27. RELATED PARTIES (CONTINUED)

Identity of related parties (continued)

Controlling related party relationships are as follows:

(i) Its subsidiary companies as disclosed in Note 31.

(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	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
A.	**Subsidiaries**				
	Management fees received	–	–	(5,702)	(6,360)
	Loan interest received	–	–	(5,777)	(7,040)
	ESOS charged	–	–	(3,258)	(1,820)
	Treasury management fees	–	–	60	120
B.	**Joint ventures**				
	Petrosab Petroleum Engineering Sdn. Bhd.				
	Contract billing receivable	–	(423)	–	–
	Administrative and other support - services	(47)	(1,058)	–	–
C.	**Related parties**				
	Inter Merger Sdn. Bhd.				
	Rental of premises	1,209	1,261	–	–
	Administrative charges	456	493	–	–
	IM Bina Sdn. Bhd.				
	Contract billing payable	18,194	15,024	–	–

Notes to the financial statements
(continued)

27. RELATED PARTIES (CONTINUED)

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
C. Related parties (continued)				
Tofield Realty Development Corporation				
General mechanical and engineering	335	389	–	–
KPS Technology & Engineering LLC				
Administrative and other support - services	–	344	–	–
D. Key management personnel				
Directors				
- Fees	1,050	1,177	1,050	1,177
- Remuneration	4,556	5,354	3,750	4,574
- Employee benefits (including estimated monetary value of benefit-in-kind)	28	25	24	25
- Share-based payments	357	2,309	357	2,309
	5,991	8,865	5,181	8,085
Subsidiaries directors				
- Short-term employee benefits	10,322	9,192	–	–
- Share-based payments	101	802	–	–
	10,423	9,994	–	–
Other key management personnel				
- Short-term employee benefits	4,233	5,795	–	–
- Share-based payments	86	1,236	–	–
	4,319	7,031	–	–
	20,733	25,890	5,181	8,085

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, 17 and 19.

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS

28.1 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
2016					
Financial assets					
Group					
Other investments	525	–	–	525	–
Trade and other receivables	920,164	920,164	–	–	–
Derivative financial assets	1,939	-	1,930	–	9
Cash and bank balances	419,183	419,183	–	–	–
	1,341,811	1,339,347	1,930	525	9
Company					
Trade and other receivables	202,748	202,748	–	–	–
Cash and bank balances	218,038	218,038	–	–	–
	420,786	420,786	–	–	–

	Carrying amount RM'000	FL RM'000	FVTPL -HFT RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
Loans and borrowings	(1,321,399)	(1,321,399)	–	–
Trade and other payables	(605,749)	(605,749)	–	–
Derivative financial liabilities	(11,932)	–	(2,356)	(9,576)
	(1,939,080)	(1,927,148)	(2,356)	(9,576)
Company				
Loans and borrowings	(333,937)	(333,937)	–	–
Trade and other payables	(13,828)	(13,828)	–	–
	(347,765)	(347,765)	–	–

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.1 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
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)	(1,199,089)	(22,824)	(349)
Company				
Trade and other payables	(43,184)	(43,184)	–	–

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.2 Net gains and losses arising from financial instruments

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net gains/(losses) arising on:				
Fair value through profit or loss:				
- Held for trading	9,608	(5,162)	–	–
Loans and receivables	(62,099)	87,832	5,907	11,132
Financial liabilities measured at amortised cost	(43,457)	(40,740)	(5,841)	(862)
	(95,948)	41,930	66	10,270

28.3 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.

28.4 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.

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 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. For large orders 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 14 (2015: 15) 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 Group through 3 (three) (2015: 3) 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 Group 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 RM2,656,000 (2015: RM10,916,000) in respect of RM439,138,000 (2015: RM546,926,000) trade receivables. The remaining balance of trade receivables are not secured by any collateral or supported by any other credit enhancements.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 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 2016 RM'000	2015 RM'000
Group		
Financial assets		
Trade receivables	439,138	546,926
Amount due from contract customers	404,013	504,885
Amount due from related parties, associates and joint ventures	23,017	15,573
Other receivables and deposits	53,996	66,301
Other investments	525	10,522
Derivative financial assets	1,939	6,218
Deposits with licensed banks	2,704	5,172
Cash and bank balances	416,479	193,685
	1,341,811	1,349,282
Company		
Financial assets		
Amount due from subsidiaries	198,004	199,787
Amount due from related parties, associates and joint ventures	4,101	4,042
Other receivables and deposits	643	3,819
Cash and bank balances	218,038	269
	420,786	207,917

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.

	2016 RM'000	2016 %	2015 RM'000	2015 %
Asia & Oceania	251,089	30	476,897	45
Europe	550,766	65	492,452	47
America	41,296	5	82,462	8
	843,151	100	1,051,811	100

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 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
2016			
Not past due	253,624	–	253,624
Past due 0 - 30 days	77,151	–	77,151
Past due 31 - 60 days	21,339	–	21,339
Past due 61 - 120 days	11,396	–	11,396
Past due more than 120 days	121,056	(45,428)	75,628
	484,566	(45,428)	439,138
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

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.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January	17,955	15,983
Impairment loss recognised	24,304	6,156
Impairment loss reversed	–	(4,026)
Impairment loss written off	(42)	(2,783)
Effect on the movement of exchange rate	3,211	2,625
At 31 December	45,428	17,955

28.5 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

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.

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 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
2016							
Non-derivative financial liabilities							
Term loans - secured							
- EUR	20,449	1.95% - 5.50%	23,010	5,606	5,468	11,584	352
- RM	55,169	5.60% - 7.35%	58,963	23,199	5,693	16,385	13,686
- CAD	24,386	4.95%	25,593	25,593	–	–	–
- RMB	12,914	5.66%	13,654	13,654	–	–	–
Term loans - unsecured							
- EUR	98,093	2.44% - 4.07%	137,638	65,626	48,259	23,753	–
- USD	45,571	4.29% - 12.00%	50,293	10,098	–	40,195	–
Guaranteed Thai Baht bonds							
- THB	333,937	3.00%	353,121	16,680	33,748	302,693	–
Revolving credit – secured							
- USD	232,095	4.50% - 4.75%	262,895	36,607	132,988	93,300	–
Revolving credit - unsecured							
- RM	67,420	4.39% - 7.65%	71,142	46,024	25,118	–	–
- USD	139,567	3.16% - 6.13%	150,838	22,550	116,862	11,426	–
- EUR	74,838	0.50% - 2.25%	75,029	75,029	–	–	–
Bills payable – secured							
- EUR	177	3.25%	178	178	–	–	–
- USD	9,711	3.00% - 3.65%	9,789	9,789	–	–	–
- RMB	16,474	0.65%	16,528	16,528	–	–	–
Bills payable - unsecured							
- USD	63,100	1.08% - 3.78%	65,046	65,046	–	–	–
- EUR	9,646	0.75% - 3.65%	9,719	9,719	–	–	–
- RM	83,266	4.49% - 5.57%	87,836	87,836	–	–	–
Hire purchase and lease creditors							
- EUR	24,017	2.02% - 6.30%	27,482	7,406	4,399	6,943	8,734
- RM	5,659	1.79% - 4.84%	6,429	2,035	1,729	2,361	304
Bank overdraft – secured							
- RM	4,910	7.40%	5,273	5,273	–	–	–
Trade and other payables	605,749	–	605,749	588,063	17,686	–	–
	1,927,148		2,056,205	1,132,539	391,950	508,640	23,076

	Net cash flows RM'000	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
Derivative financial liabilities						
Forward exchange contracts (gross settled):						
- Outflow	12,683	185,944	185,309	635	–	–
- Inflow	–	(173,261)	(172,678)	(583)	–	–
	12,683	12,683	12,631	52	–	–
		2,068,888	1,145,170	392,002	508,640	23,076

Notes to the financial statements (continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 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
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	–	–	–
Bills payable – secured							
- EUR	2,014	2.70% - 3.30%	2,028	2,028	–	–	–
- USD	17,628	2.70% - 3.30%	17,732	17,732	–	–	–
Bills payable - 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

	Net cash flows RM'000	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
Derivative financial liabilities						
Forward exchange contracts (gross settled):						
- Outflow	24,577	421,284	351,623	69,661	–	–
- Inflow	–	(396,707)	(328,794)	(67,913)	–	–
	24,577	24,577	22,829	1,748	–	–
		1,292,963	854,917	161,623	246,290	30,133

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 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
2016							
Non-derivative financial liabilities							
Loans and borrowings	333,937	3.00%	353,121	16,680	33,748	302,693	–
Trade and other payables	13,828	–	13,828	13,185	643	–	–
Financial guarantee	–	–	1,379,122	1,379,122	–	–	–
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	–	–	–

28.6 Foreign currency risk

The Group operates in 18 (2015: 18) 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 subsidiaries located in Malaysia but adopting USD as their functional currency. The Group's foreign currency risk management objective is to minimise transactional FX exposure that gives rise to economic impact.

<u>Policies and Processes</u>

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.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 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.

Group	USD RM'000	Denominated in EUR RM'000	RM RM'000
2016			
Trade receivables	113,611	15,907	108
Cash and bank balances	5,774	383	3,295
Trade payables	(10,959)	(2,326)	(36,582)
Other payables and accruals	(45)	(151)	(4,028)
Bills payable	(19,099)	(3,506)	(80,256)
Forward exchange contracts	8,735	(416)	–
Net exposure in the statement of financial position	98,017	9,891	(117,463)
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)

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	
Group	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
USD	(112,158)	(118,683)	(4,901)	(3,855)
EUR	(69,110)	(69,417)	(495)	(155)
RM	–	–	5,873	1,497

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.

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.7 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		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Fixed rate instruments				
Financial assets	2,704	5,172	–	–
Financial liabilities	(406,122)	(83,495)	(333,937)	–
	(403,418)	(78,323)	(333,937)	–
Floating rate instruments				
Financial liabilities	(915,277)	(634,965)	–	–

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.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.7 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
2016		
Floating rate instruments	(2,288)	2,288
2015		
Floating rate instruments	(1,587)	1,587

28.8 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	Net cash flows RM'000	Expected cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000
2016				
Proceeds from accounts receivables				
- inflow	–	40,420	40,420	–
- outflow	(4,372)	(44,792)	(44,792)	–
Proceeds from accounts payables				
- inflow	26	5,165	5,165	–
- outflow	–	(5,139)	(5,139)	–

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.8 Cash flow hedge (continued)

Group	Net cash flows 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)	–

During the year, net gain of RM2,006,000 (2015: gain of RM733,000) was recognised in other comprehensive income. An ineffective net gain of RM611,058 (2015: RM384,639) was recognised in profit or loss during the year.

28.9 Fair value of financial instruments

The carrying amounts of cash and bank balances, deposits with licensed banks, 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.

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.9 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.

2016	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
Group										
Financial assets										
Available-for-sale	–	–	–	–	–	–	525	525	525	525
Forward exchange contracts	–	1,939	–	1,939	–	–	–	–	1,939	1,939
	–	1,939	–	1,939	–	–	525	525	2,464	2,464
Financial liabilities										
Forward exchange contracts	–	(11,932)	–	(11,932)	–	–	–	–	(11,932)	(11,932)
Fixed rate term loans	–	–	–	–	–	–	(48,818)	(48,818)	(48,818)	(48,802)
Fixed rate guaranteed Thai Baht bonds	–	–	–	–	–	–	(334,037)	(334,037)	(334,037)	(333,937)
Fixed rate finance lease liabilities	–	–	–	–	–	–	(23,535)	(23,535)	(23,535)	(23,383)
Long term payables	–	–	–	–	–	–	(10,589)	(10,589)	(10,589)	(10,589)
Long service leave liability	–	–	–	–	–	–	(7,097)	(7,097)	(7,097)	(7,097)
	–	(11,932)	–	(11,932)	–	–	(424,076)	(424,076)	(436,008)	(435,740)
Company										
Financial liabilities										
Fixed rate guaranteed Thai Baht bonds	–	–	–	–	–	–	(334,037)	(334,037)	(334,037)	(333,937)
Long term payables	–	–	–	–	–	–	(643)	(643)	(643)	(643)
	–	–	–	–	–	–	(334,680)	(334,680)	(334,680)	(334,580)

Notes to the financial statements
(continued)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.9 Fair value of financial instruments (continued)

2015	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
Group										
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)
Fixed rate 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)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.9 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.

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2015: 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

	2016	2015
Group		
Fixed rate term loans	5.66% - 12.00%	3.10% - 18.00%
Fixed rate guaranteed Thai Baht bonds	3.00%	–
Fixed rate finance lease liabilities	1.79% - 6.30%	1.88% - 6.00%
Company		
Fixed rate guaranteed Thai Baht bonds	3.00%	–

Notes to the financial statements
(continued)

29. 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 2016, the Group recorded a DER of 0.55 (2015: 0.27) as compared to the financial covenants of not exceeding 1.00 times (2015: 1.50 times). The Group is also required to maintain certain financial covenant ratios as disclosed in Note 15.

	Group	
	2016 RM'000	**2015 RM'000**
Total loans and borrowings (Note 15)	1,321,399	718,460
Total equity	2,388,873	2,709,695
DER	0.55	0.27

30. 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, Singapore, Indonesia, Australia, Uzbekistan and Mauritius
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

30. OPERATING SEGMENT (CONTINUED)

Geographical segments

	Asia and Oceania		Europe		America		Consolidated	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	403,147	521,897	1,159,309	1,024,959	84,326	94,426	1,646,782	1,641,282
Cost of sales	(574,162)	(419,898)	(944,538)	(808,648)	(121,613)	(72,895)	(1,640,313)	(1,301,441)
Gross (loss)/profit	(171,015)	101,999	214,771	216,311	(37,287)	21,531	6,469	339,841
Administration expenses and others	(69,969)	18,549	(202,574)	(178,893)	(9,423)	(13,754)	(281,966)	(174,098)
Operating (loss)/profit	(240,984)	120,548	12,197	37,418	(46,710)	7,777	(275,497)	165,743
Add: Depreciation and amortisation	20,959	23,120	68,898	69,969	4,386	4,312	94,243	97,401
Segment (loss)/profit	(220,025)	143,668	81,095	107,387	(42,324)	12,089	(181,254)	263,144
Share of profit/(loss) of equity-accounted investees, net of tax							1,140	(6,343)
Less: Depreciation and amortisation							(94,243)	(97,401)
							(274,357)	159,400
Finance costs							(44,422)	(36,636)
Finance income							2,132	1,371
(Loss)/Profit before tax							(316,647)	124,135
Segment assets	1,743,135	1,312,235	2,793,294	2,848,881	105,030	146,021	4,641,459	4,307,137
Segment liabilities	1,427,435	676,701	796,542	871,238	28,609	49,503	2,252,586	1,597,442
Capital expenditure	76,314	27,354	34,263	113,588	307	3,680	110,884	144,622
Depreciation and amortisation charged to profit or loss	5,526	7,175	33,239	36,010	583	617	39,348	43,802
Non-cash expenses other than depreciation and amortisation	26,919	3,430	37,909	4,102	–	–	64,828	7,532

Notes to the financial statements
(continued)

31. 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 2016 %	2015 %
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

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
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	100
KNM Global (S) Pte Ltd. ^	Dormant	Singapore	100	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
(continued)

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
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 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
Subsidiaries of KNM Renewable Energy Sdn. Bhd.				
Global Green Energy Corporation Ltd. **@	Investment holding	Isle of Man	100	100
Green Energy and Technology Sdn. Bhd. **@	Investment holding and design, engineer, construct, commission and operate waste to energy plants	Malaysia	51	–
Asia Bio-fuels Limited **@	Investment holding	Republic of Mauritius	100	–
Asia Biofuels II Ltd. **@	Investment holding	Republic of Mauritius	100	–
Subsidiaries of KNM International Sdn. Bhd.				
KNM Overseas (China) Sdn. Bhd. @	Investment holding and provision of management and consultancy services	Malaysia	100	100

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
Subsidiaries of KNM International Sdn. Bhd. (continued)				
FBM - KNM FZCO *	Provision of manufacture of air cooled heat exchangers, shell and 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
Verwater KNM Sdn. Bhd. **	Involved in the business of relocating and jacking of tank catalyst change-out and chemical cleaning work	Malaysia	100	100
Kimma Thai Co., Ltd. **@	Investment holding	Thailand	49	49
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
Saudi KNM Ltd. **@	Production of platforms, towers, columns, pressure pipe, large barrels, boilers, thermal transformers, large tanks and cooling fans	Saudi Arabia	51	51

Notes to the financial statements
(continued)

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
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	100
Subsidiary of KNM Exotic Equipment Sdn. Bhd.				
KMK Power Sdn. Bhd. @	Investment holding	Malaysia	100	100
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

31. **SUBSIDIARIES (CONTINUED)**

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
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 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 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	100
Subsidiary of Asia Bio-fuels Limited & Asia Biofuels II Ltd.				
Impress Ethanol Co., Ltd. **@	Manufacturer and distributor of alcohol/ethanol or fuel from agricultural products	Thailand	72	–

Notes to the financial statements
(continued)

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
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
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
Subsidiary of KMK Power Sdn. Bhd.				
Poplar Investments Limited **	Property investment	Isle of Man	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

Notes to the financial statements (continued)

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
Subsidiaries of KPS Inc (continued)				
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	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
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

Notes to the financial statements
(continued)

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
Subsidiaries of BORSIG GmbH (continued)				
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
Subsidiary of BORSIG Boiler Systems GmbH				
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

Notes to the financial statements
(continued)

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2016 %	2015 %
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

For financial year 2016:

- * 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 2016.

<u>Kimma Thai Co., Ltd.</u>

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..

Notes to the financial statements
(continued)

32. ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

During the financial year, the Group acquired the entire equity interest in Asia Bio-fuels Limited and Asia Biofuels II Ltd. (collectively referred to as "ABL Group") and 51% equity interest in Green Energy and Technology Sdn. Bhd. ("GET"), for a total cash consideration of RM89,134,000. The principal activities of the subsidiaries acquired are shown in Note 31. The acquisition would have no significant effect to the consolidated revenue and consolidated profit for the year as the plant acquired under ABL Group is under construction as of 31 December 2016 (Note 3.6).

The acquisitions had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts RM'000	Fair value adjustments RM'000	Recognised values on acquisitions RM'000
Property, plant and equipment (Note 3)	335,320	2,905	338,225
Other receivables and prepayments	28,688	–	28,690
Payables and accruals	(292,509)	–	(292,509)
Net identifiable assets and liabilities	71,499	2,905	74,406
Non-controlling interest			(16,442)
Goodwill on acquisition			31,170
Consideration paid, satisfied in cash			89,134
Cash acquired			(19,824)
Net cash outflow			69,310

33. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Group 2016 RM'000	Group 2015 RM'000
Less than one year	556	532
More than one year	3,893	2,793
	4,449	3,325

The Group has operating leases for land used to build office space and factory building. The lease is for an initial period of 7 years, with options to renew the lease after expiry of the lease period.

Notes to the financial statements
(continued)

34. SIGNIFICANT EVENTS DURING THE YEAR

34.1 On 9 March 2016, the Company's wholly owned 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.

34.2 On 6 May 2016, voluntary winding up of a wholly owned subsidiary in Uzbekistan, KNM Technical Services LLC, has been completed.

34.3 On 19 May 2016, the Company's wholly owned subsidiary, KNM Renewable Energy Sdn. Bhd.'s, Share Purchase Agreement with FE Global/Asia Clean Energy Services Fund L.P., FEGACE Asia Sub-Fund, L.P., and Global Clean Energy Corp. SPC (collectively referred to as the "Vendors"), for the acquisition of the Vendors' entire equity interest in Asia Bio-fuels Limited and Asia Biofuels II Ltd. [collectively referred to as the "ABL Group" which, owns a combined 72% equity interest in Impress Ethanol Co., Ltd. and 49% equity interest in Impress Farming Co., Ltd.] was completed. The total cash consideration for the acquisition was USD21,600,000 (equivalent to RM89,134,000).

34.4 On 26 September 2016, the Company submitted an application to the Securities Commission of Malaysia for a proposed issuance of bonds in Thailand up to USD80 million equivalent in Thai Baht (the "Proposed Thai Bonds") guaranteed by Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank.

On 18 November 2016, the Company has completed the issuance of Thai Baht bonds amounting to THB2,780 million (equivalent to approximately RM333.9 million). The bonds are rated "AAA"/Stable by TRIS Rating Co., Ltd., Thailand with a fixed coupon rate of 3.00% p.a. and for a 5-years tenure maturing on 18 November 2021.

34.5 The Company's wholly owned subsidiary, KNM Renewable Energy Sdn. Bhd. had on 29 December 2016 entered into a Share Purchase Agreement with Growing Heights Sdn. Bhd. (the "Vendor") for the acquisition of the Vendor's 51% equity interest or 30,080,820 ordinary shares of RM1.00 each in Green Energy and Technology Sdn. Bhd. for a total cash consideration of RM1.00 only.

Notes to the financial statements
(continued)

35. 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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total retained earnings of the Company and its subsidiaries				
- Realised	71,438	512,894	58,638	60,192
- Unrealised	(162,416)	(151,729)	(33)	(170)
	(90,978)	361,165	58,605	60,022
Total share of retained earnings of associates				
- Realised	(8)	(6)	–	–
Total share of retained earnings of joint ventures				
- Realised	(6,341)	(8,530)	–	–
- Unrealised	(720)	1,007	–	–
	(98,047)	353,636	58,605	60,022
Add: Consolidation adjustments	779,299	653,005	–	–
Total retained earnings	681,252	1,006,641	58,605	60,022

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 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 45 to 135 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 2016 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 35 on page 136 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,

Date: 26 April 2017

STATUTORY DECLARATION
pursuant to Section 251(1)(b) of the Companies Act, 2016

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 45 to 136 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Tan Koon Ping, IC No.: 700406-10-5759, at Kuala Lumpur in the Federal Territory on 26 April 2017.

……........…….……………………....
Tan Koon Ping

Before me:

INDEPENDENT AUDITORS' REPORT
to the members of KNM Group Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of KNM Group Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 45 to 135.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, 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.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and of the Company in accordance with the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Emphasis of Matter

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 to the extent of the deferred tax assets / tax benefits recognised in the statements of financial position and statements of profit or loss. Our opinion is not modified in respect of this matter.

Independent auditors' report
to the members of KNM Group Berhad (cont'd)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. **<u>Valuation of Goodwill and Other Intangible Assets</u>**

Refer to *Note 1(d) – Use of estimates and judgements, Note 2(f) – Intangible assets and Note 4 – Intangible assets* to the financial statements.

Under MFRS 136, Impairment of Assets, the Group is required to assess annually the amounts of goodwill and other intangible assets for impairment. The Group's goodwill on consolidation and other intangible assets amounted to RM894,502,000 and RM512,071,000 respectively as at 31 December 2016. There is a risk that the carrying values of the Group's goodwill and other intangible assets may not be recoverable when comparing the carrying values with the recoverable amounts, which are determined based on value in use calculations. The value in use is determined by discounting future cash flows to present value. Due to the inherent uncertainties involved in projecting and discounting future cash flows which are affected by future market or economic conditions, this is one of the key judgemental area that our audit concentrated on.

How the matter was addressed in our audit

Our audit procedures included, among others, understanding the process activities undertaken by the management in assessing the potential impairment of cash-generating units ("CGUs") containing goodwill and other intangible assets.

In assessing the reasonableness of value in use, we obtained the discounted cash flow projections, and assessed the key estimates and assumptions which were used in preparing the cash flow projections, with reference to internally and externally derived sources and taking into account the CGUs' historical accuracy in arriving at projections.

We also evaluated the appropriateness of the key estimates and assumptions used, in particular, those relating to revenue growth, gross profit margins, and the discount rate and terminal growth rate applied to the cash flows, by comparing to historical results and competitors in the industry.

To assess the reasonableness of value in use, a range of sensitivities were performed across the different elements of the impairment model in order to understand the relationship between the judgements and assumptions used and the resulting value in use.

We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in determining the appropriateness of the carrying values of goodwill and other intangible assets.

Independent auditors' report
to the members of KNM Group Berhad (cont'd)

Key Audit Matters (continued)

2. Recognition of Deferred Tax Assets

Refer to *Note 1(d) – Use of estimates and judgements, Note 2(q) – Income tax and Note 9 – Deferred tax assets/(liabilities)* to the financial statements.

A subsidiary has recognised deferred tax assets amounting to RM337,583,000 as of 31 December 2016, mainly attributed from unutilised tax losses and unabsorbed capital allowances. In accordance with MFRS 112, Income Taxes, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The recognition of deferred tax assets is based on the projection of future taxable income in that subsidiary. There is a risk that due to the assumptions used, which included future events, actual results may be significantly different from the management's estimate of future profitability. Due to the inherent uncertainties involved in projecting future taxable profits, this is one of the key judgemental areas that our audit is concentrated on.

How the matter was addressed in our audit

Our audit procedures included, understanding the process activities undertaken by the management in projecting the subsidiary's future profitability. We considered the subsidiary's historical accuracy in arriving at projections and the anticipated events that will occur. By gathering supporting documentations, which included the estimation of future contract revenue and the related contracts' profit margins that could be generated, timing as to when the contracts can be secured, project financing and support of lenders to facilitate the timing of projects, operating and administrative costs, capital expenditure and other capital management transactions, we assessed the reasonableness of key assumptions used.

We evaluated the key assumptions made by senior operational, commercial and financial management personnel to determine whether there were differences or forecast errors, including inappropriate assumptions based on historical performance and industry knowledge.

We inspected minutes and correspondences with customers, and corroborated the findings by obtaining assessments from operational and technical management personnel to evaluate the reasonableness of management's projections of future contract revenue and timing of project works.

We evaluated the reasonableness of budgetted costs of each material project by comparing the budgeted costs components with similar contracts. Based on historical results, we also evaluated the reasonableness of projected contracts' profit margins.

To assess the reasonableness of deferred tax assets recognised in the financial statements, a range of sensitivities were performed across the different elements or assumptions used in the projection in order to understand the relationship between the judgements and assumptions used and the amount of deferred tax assets recognised.

Independent auditors' report
to the members of KNM Group Berhad (cont'd)

Key Audit Matters (continued)

3. <u>Recoverability of Trade Receivables</u>

Refer to *Note 2(c) – Financial instruments and Note 11 – Trade and other receivables* to the financial statements.

The Group has significant balance of trade receivables (RM439,138,000 as of 31 December 2016). Given the nature and volatility of the industry the Group operates in which involves heavy capital expenditure and a specific duration of time for projects to commence operations, there exist uncertainties in market or economic condition that may impact on the recoverability of these balances.

How the matter was addressed in our audit

Our audit procedures included, among others, evaluating the design and implementation over the Group's credit control procedures including the controls around approving or extending credit limit to customers, and the Group's impairment assessment process activities in analysing customers' payment history and pertinent financial information.

We tested the accuracy of trade receivables aging to identify long outstanding trade receivables and assess the adequacy of impairment loss by verifying post year end cash collections. For significant balances with no post year end collections, we obtained historical trading experience and collections, and discussed with management whether impairment indications exist.

To assess adequacy of impairment loss, we also evaluated management's assessment, by reference to historical accuracy of impairment loss and the level of bad debt write offs during the year.

4. <u>Construction Contracts Revenue, Construction Contracts Profits and Recoverability of Amount due from Contract Customers</u>

Refer to *Note 1(d) – Use of estimates and judgements, Note 2(o)(i) – Revenue and other income and Note 11 – Trade and other receivables* to the financial statements.

The Group has construction contracts with targeted completion periods ranging from 12 to 24 months. The recognition of construction contracts revenue and profits are based on percentage of completion, assessed by reference to surveys of work performed/completion of a physical proportion of contract work. Judgment is required in the estimation of physical proportion of contract work. An error in the estimation could result in a material variance in the amount of revenue and profits recognised to date and in the current period. Due to the level of judgement involved, this is one of the key judgemental areas that our audit is concentrated on.

How the matter was addressed in our audit

We used a variety of quantitative and qualitative factors to select construction contracts with a higher risk of material error based on their size or complexity for testing. We assessed whether the amounts recognised in the financial statements were in line with the Group's accounting policy and relevant accounting standards.

We read correspondences and minutes of meeting with customers, selected signed contracts and read key clauses to identify relevant contractual terms covering damages and variation orders and determined whether these were factored in the revenue recognition.

We evaluated the reasonableness of budgeted costs of each material project by comparing to supplier quotes, supplier contracts and actual overhead costs incurred in similar projects.

We also visited sites to gauge the reasonableness of the stage of completion of certain individual projects and identify areas of complexity through observation and discussion with site personnel.

Independent auditors' report
to the members of KNM Group Berhad
(cont'd)

Key Audit Matters (continued)

5. Recoverability Assessment of Amounts Due From Subsidiaries (Company level)

Refer to *Note 2(c) – Financial instruments and Note 11 – Trade and other receivables* to the financial statements.

As of 31 December 2016, the Company recorded amounts due from subsidiaries of RM198,004,000. We noted that several subsidiaries were either dormant since incorporation, or loss-making and have deficits in shareholders' funds at 31 December 2016, which led to indicators of potential impairment. Due to the substantial amounts with potential impairment concerned, we have identified this as one of the key judgemental areas that our audit is concentrated on.

How the matter was addressed in our audit

We evaluated the financial positions of the Company's subsidiaries and assessed the basis and assumptions included in management's cash flows projections in determining the recoverable amounts. The basis and assumptions included future contract revenue, the related contracts' profit margins that could be generated and timing as to when the contracts can be secured, which we assessed by comparing to tenders submitted and historical profit margins.

We also evaluated the sensitivity of these recoverable amounts to potential changes in the management's basis and assumptions.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report and the Statement on Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of our auditors' report. The remaining parts of the annual report are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of our auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and report that fact.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements of the Group and the Company 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 of the Group and the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report
to the members of KNM Group Berhad
(cont'd)

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with approved standards on auditing in Malaysia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit 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 internal control of the Group or of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group or the Company to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our audit report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 31 to the financial statements.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 35 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with 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*, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material aspects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Tai Yoon Foo
Approval Number: 2948/05/18(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 26 April 2017

LIST OF TOP 10 MAJOR PROPERTIES
owned by the Group as at 31 December 2016

	Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of 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	146,102
2.	Via Valtrighe, 5 & 6 24030 Terno d'Isola (BG);	(i) Fabrication plant	–	–	48,582 m^2	1st phase – 50 years 2nd phase – 25 years	31/12/2014	130,188
		(ii) Staff house	–	–	396 m^2	56 years	31/12/2014	
		(iii) Staff house	–	–	120 m^2	35 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	61,376
		(ii) Fabrication plant and office building	–	–	18,778 m^2	16 years	31/12/2014	
4.	6204-46 Ave Tofield, AB TOB 4JO Canada	(i) Industrial land	–	457,299 m^2	–	–	19/12/2014	52,262
		(ii) Fabrication plant and office building	–	–	9,862 m^2	11 years	19/12/2014	
5.	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	46,609
	"Shu Fangquanzheng Bixi Zi No. 10001641";	(ii) Fabrication plant and office building	Leasehold (50 years) Expiring on 09/07/2052	–	17,012 m^2	15 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	10 years	9/12/2014	

List of Top 10 Major Properties
owned by the Group as at 31 December 2016 (cont'd)

	Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
6.	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	25 years	23/11/2014	39,327
7.	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	38,115
		(ii) Fabrication plant and office building	–	–	20,135 m^2	10 years	11/12/2014	
8.	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	11 years/ 9 years (due to extension of the building)	18/12/2014	37,171
	Egellsstraße 21 Berlin, Germany	(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	8 years	18/12/2014	
	Am Rhein 5 Rheinfelden, Germany	(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	23 years	18/12/2014	

List of Top 10 Major Properties
owned by the Group as at 31 December 2016 (cont'd)

Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
9. 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 }	26,283
	(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	13 years	31/12/2014 }	
	(v) Fabrication plant and office building (Lot 2837)	–	–	9,879 m^2	25 years	31/12/2014 }	
10. Bottroper Strasse 279 Gladbeck, Germany	Fabrication plant and office building	Freehold	26,290 m^2	6,420 m^2	55 years	27/11/2014 }	22,860

ANALYSIS OF SHAREHOLDINGS AND WARRANTHOLDINGS
as at 31 March 2017

A) ANALYSIS OF SHAREHOLDINGS

Total Number of Issued Shares	:	2,156,132,642*
Issued Share Capital	:	RM1,078,066,321.00
Class of Shares	:	Ordinary shares
Voting Rights	:	One vote per ordinary share held

Note:
* Inclusive of 23,331,275 treasury shares

DISTRIBUTION OF SHAREHOLDINGS (as per Record of Depositors as at 31 March 2017)

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
Less than 100	1,470	3.76	68,042	Negligible
100 to 1,000	4,273	10.93	2,660,886	0.13
1,001 to 10,000	16,881	43.19	84,679,642	3.97
10,001 to 100,000	14,062	35.98	489,353,185	22.94
100,001 to less than 5% of issued shares	2,401	6.14	1,429,439,612	67.02
5% and above of issued shares	1	Negligible	126,600,000	5.94
TOTAL	**39,088**	**100.00**	**2,132,801,367^**	**100.00**

Note:
^ Excluding 23,331,275 treasury shares

THIRTY LARGEST SHAREHOLDERS (as per Record of Depositors as at 31 March 2017)

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)	126,600,000	5.94
2.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	102,377,042	4.80
3.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (F Templeton)	42,864,300	2.01
4.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Bank Julius Baer & Co. Ltd. (Singapore BCH)	33,300,000	1.56
5.	DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund PLD2 for Polunin Emerging Markets Small Cap Fund, LLC	21,998,760	1.03
6.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)	19,913,225	0.93
7.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (RHB Inv)	19,383,000	0.91
8.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	18,232,951	0.85

Analysis of Shareholdings and Warrantholdings
as at 31 March 2017
(cont'd)

THIRTY LARGEST SHAREHOLDERS (as per Record of Depositors as at 31 March 2017) (CONT'D)

No.	Name of Shareholders	No. of Shares Held	%#
9.	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tegas Klasik Sdn Bhd (Margin)	17,971,090	0.84
10.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Pheim)	16,591,800	0.78
11.	MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng (MGN-LSE0004M)	15,580,000	0.73
12.	DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund PLD1 for Polunin Developing Countries Fund, LLC	12,984,857	0.61
13.	Affin Hwang Nominees (Asing) Sdn Bhd - Pledged Securities Account for Aveda Assets Capital Inc.	12,850,000	0.60
14.	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (Affin AM B EQ)	12,331,480	0.58
15.	Citigroup Nominees (Asing) Sdn Bhd - CEP for Pheim Sicav-Sif	11,958,600	0.56
16.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Dimensional Emerging Markets Value Fund	10,607,559	0.50
17.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng	10,259,404	0.48
18.	HSBC Nominees (Asing) Sdn Bhd - BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund	10,159,800	0.48
19.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	9,926,476	0.47
20.	Affin Hwang Investment Bank Berhad - Exempt An Clr (TYL) for Morgan Stanley & Co. International Plc (DMA)	9,800,000	0.46
21.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Caceis Bank Luxembourg (UCITS CLTS)	9,594,456	0.45
22.	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (Kenanga)	8,700,000	0.41
23.	Ooi Cheow Har	8,300,000	0.39
24.	DB (Malaysia) Nominee (Asing) Sdn Bhd - BNYM SA/NV for Allchurches Investment Management Services Ltd	8,100,000	0.38
25.	Toh Ean Hai	8,000,000	0.38
26.	Cartaban Nominees (Asing) Sdn Bhd - SSBT Fund FA2N for Parametric Tax-Managed Emerging Markets Fund	7,927,875	0.37

Analysis of Shareholdings and Warrantholdings
as at 31 March 2017
(cont'd)

THIRTY LARGEST SHAREHOLDERS (as per Record of Depositors as at 31 March 2017) (CONT'D)

No.	Name of Shareholders	No. of Shares Held	%#
27.	Tan Kim Kee @ Tan Kee	7,500,000	0.35
28.	Gan Siew Liat	7,296,250	0.34
29.	Hong Leong Assurance Berhad - AS Beneficial Owner (Life Par)	7,200,000	0.34
30.	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng (Margin)	7,116,434	0.33
TOTAL		**615,425,359**	**28.86**

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS
(as per Register of Substantial Shareholders of the Company as at 31 March 2017)

Name of Shareholders	No. of Shares Held in KNM Group Berhad Direct	%#	Indirect	%#
Inter Merger Sdn Bhd	247,287,551	11.59	70,000,000[a]	3.28
Ir Lee Swee Eng	37,408,838	1.75	414,674,859[b]	19.44
Gan Siew Liat	9,045,000	0.42	414,674,859[c]	19.44

DIRECTORS' INTERESTS IN SHARES IN KNM GROUP BERHAD AND RELATED CORPORATION
(as per Register of Directors' Shareholdings of the Company as at 31 March 2017)

Name of Directors	No. of Shares Held in KNM Group Berhad Direct	%#	Indirect	%#
Dato' Ab Halim bin Mohyiddin	2,452,500	0.11	–	–
Ir Lee Swee Eng	37,408,838	1.75	414,674,859[b]	19.44
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	414,674,859[c]	19.44
Chew Fook Sin	5,173,140	0.24	22,448,058[d]	1.05

Name of Director	Initial Capital Contribution KPS Technology & Engineering LLC 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 2,132,801,367 (excluding 23,331,275 treasury shares held as at 31 March 2017).

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, interest of her spouse in TKSB and 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 2017
(cont'd)

B) ANALYSIS OF WARRANTHOLDINGS

i) Warrants 2012/2017 (Warrants A) : 517,675,629 Warrants A at an exercise price of RM0.98 each
Maturity Date : 15 November 2017

DISTRIBUTION OF WARRANTHOLDINGS (as per Record of Depositors as at 31 March 2017)

Range of Warrantholdings	No. of Warrantholders	%	No. of Warrants A	%
Less than 100	1,257	12.10	65,279	0.01
100 to 1,000	1,901	18.30	936,032	0.18
1,001 to 10,000	4,089	39.36	13,648,045	2.64
10,001 to 100,000	2,403	23.13	80,654,663	15.58
100,001 to less than 5% of issued warrants	738	7.10	329,079,292	63.57
5% and above of issued warrants	1	0.01	93,292,318	18.02
TOTAL	**10,389**	**100.00**	**517,675,629**	**100.00**

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2017)

No.	Name of Warrantholders	No. of Warrants A Held	%*
1.	Inter Merger Sdn Bhd	93,292,318	18.02
2.	Mohd Annuar Choon bin Abdullah	9,486,088	1.83
3.	Kok Bee Chuan	7,500,000	1.45
4.	Mok Ching Yam	7,350,000	1.42
5.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	7,264,368	1.40
6.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng	6,578,569	1.27
7.	Yin Yit Fun	5,600,011	1.08
8.	Md Nor bin Mansor	4,850,882	0.94
9.	Maybank Nominees (Tempatan) Sdn Bhd - Liaw Jyue Hwang	3,900,000	0.75
10.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 1)	3,861,317	0.75
11.	CIMB Group Nominees (Asing) Sdn Bhd - Exempt An for DBS Bank Ltd (SFS-PB)	3,739,341	0.72
12.	Ng Teck Wah	3,400,023	0.66

Analysis of Shareholdings and Warrantholdings
as at 31 March 2017
(cont'd)

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2017) (CONT'D)

No.	Name of Warrantholders	No. of Warrants A Held	%*
13.	Cartaban Nominees (Tempatan) Sdn Bhd - RHB Trustees Berhad for SP Tactical Investment Fund	3,200,000	0.62
14.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Poh Seng Kian (TJJ/KEN)	3,000,000	0.58
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd - Exempt An for Deutsche Bank AG Singapore (PWM Asing)	2,911,765	0.56
16.	Jefri bin Hassan Basri	2,600,023	0.50
17.	Chin Yok Lay @ Chin Yok Lin	2,550,000	0.49
18.	DB (Malaysia) Nominee (Asing) Sdn Bhd - BNYM SA/NV for Allchurches Investment Management Services Ltd	2,382,352	0.46
19.	Tan Chin Lin	2,329,411	0.45
20.	Khok Khar Poh	2,300,000	0.44
21.	Goh Ah Choon	2,250,000	0.44
22.	Gan Siew Liat	2,222,205	0.43
23.	Ng Chee Keong	2,011,764	0.39
24.	Choong Kean Cheong	2,000,000	0.39
25.	RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Pua Ai Chian	2,000,000	0.39
26.	Yeo Hock Kim	2,000,000	0.39
27.	Yeu Chian Kim	2,000,000	0.39
28.	Tan Ern Han	1,760,882	0.34
29.	Ismail bin Mat Ali	1,730,588	0.33
30.	Sharifah Rozaina binti Syed Hussin	1,720,100	0.33
TOTAL		**197,792,007**	**38.21**

Analysis of Shareholdings and Warrantholdings
as at 31 March 2017
(cont'd)

ii) Warrants 2015/2020 (Warrants B) : 161,578,504 Warrants B at an exercise price of RM1.00 each
Maturity Date : 21 April 2020

DISTRIBUTION OF WARRANTHOLDINGS (as per Record of Depositors as at 31 March 2017)

Range of Warrantholdings	No. of Warrantholders	%	No. of Warrants B	%^
Less than 100	641	7.12	29,812	0.02
100 to 1,000	4,413	49.06	2,126,783	1.32
1,001 to 10,000	3,004	33.40	9,944,860	6.15
10,001 to 100,000	749	8.33	24,375,032	15.09
100,001 to less than 5% of issued warrants	187	2.08	101,392,865	62.75
5% and above of issued warrants	1	0.01	23,709,152	14.67
TOTAL	**8,995**	**100.00**	**161,578,504**	**100.00**

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2017)

No.	Name of Warrantholders	No. of Warrants B 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.	Md Nor bin Mansor	5,000,000	3.09
4.	Ngan Teng Han	3,806,000	2.36
5.	Ong Khai Lee	3,100,000	1.92
6.	Alliancegroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Lian Seng (800394)	2,800,000	1.73
7.	Cartaban Nominees (Tempatan) Sdn Bhd - RHB Trustees Berhad for SP Tactical Investment Fund	2,689,500	1.66
8.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 1)	2,511,250	1.55
9.	Citigroup Nominees (Tempatan) Sdn Bhd - Exempt An for AIA Bhd.	2,306,340	1.43
10.	Citigroup Nominees (Asing) Sdn Bhd - UBS AG	2,239,413	1.39
11.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng	2,226,500	1.38
12.	Aslina binti Mohd Islam	2,000,000	1.24
13.	Lim Chin Kiong	2,000,000	1.24

Analysis of Shareholdings and Warrantholdings
as at 31 March 2017
(cont'd)

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2017)

No.	Name of Warrantholders	No. of Warrants B Held	%^
14.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Peng Heng (E-TSA)	1,850,000	1.15
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund PLD2 for Polunin Emerging Markets Small Cap Fund, LLC	1,833,230	1.14
16.	HSBC Nominees (Asing) Sdn Bhd - Morgan Stanley & Co. International Plc (Firm A/C)	1,745,090	1.08
17.	Chin Kim Su	1,700,000	1.05
18.	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for AMB Value Trust Fund (4249)	1,480,000	0.92
19.	Ong Yew Beng	1,300,000	0.80
20.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Hon Kwong Yew (M09)	1,250,000	0.77
21.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Bank Julius Baer & Co. Ltd. (Singapore BCH)	1,211,850	0.75
22.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lai Ee Fong (E-TSA)	1,200,000	0.74
23.	Cimsec Nominees (Tempatan) Sdn Bhd - CIMB Bank for Chong Hwa Jau (M78040)	1,090,000	0.68
24.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)	1,085,088	0.67
25.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for JPMorgan Chase Bank, National Association (JPMelab AIF APG)	1,053,580	0.65
26.	Christopher Ling Siew Ming	1,007,800	0.62
27.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tang Sing Ling	1,000,000	0.62
28.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Kek Lian Lye	934,400	0.58
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	903,790	0.56
TOTAL		**82,368,183**	**50.98**

Analysis of Shareholdings and Warrantholdings
as at 31 March 2017
(cont'd)

DIRECTORS' INTERESTS IN WARRANTS IN KNM GROUP BERHAD
(as per Register of Directors' Warrantholdings of the Company as at 31 March 2017)

	No. of Warrants Held in KNM Group Berhad							
	Warrants A				Warrants 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	6,578,616	1.27	102,211,978[a]	19.74	2,226,562	1.38	24,079,940[d]	14.90
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	102,211,978[b]	19.74	874,375	0.54	24,079,940[f]	14.90
Chew Fook Sin	1,618,570	0.31	526,102[c]	0.10	358,595	0.22	993,171[g]	0.61

Notes:-

*	Percentage interest is based on the total outstanding Warrants A of 517,675,629 as at 31 March 2017.
^	Percentage interest is based on the total outstanding Warrants B of 161,578,504 as at 31 March 2017.
a	Deemed interested by virtue of his indirect interest in Inter Merger Sdn Bhd ("IMSB"), 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, interest of her spouse in McDermott and interest of her children in KNM.
c	Deemed interested by virtue of the interest of his spouse in KNM.
d	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.
e	Deemed interested by virtue of the interest of her spouse in KNM.
f	Deemed interested by virtue of her indirect interest in IMSB, interest of her spouse in TKSB and 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.

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KNM GROUP BERHAD
(Company No. 521348-H)

CDS Account Number
Number of Ordinary Shares Held

FORM OF PROXY

*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 15th 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, 15 June 2017 at 9.30 a.m. or at any adjournment thereof, in the manner indicated below:

No.	Resolutions	For	Against
1.	Re-election of Dato' Sri Adnan bin Wan Mamat as Director		
2.	Re-election of Chew Fook Sin as Director		
3.	Approval of Directors' fees and benefits		
4.	Re-appointment of Messrs KPMG PLT as Auditors		
5.	Retention of Dato' Ab Halim bin Mohyiddin as Independent Director		
6.	Authorisation for Directors to allot and issue shares		
7.	Proposed Renewal of Share Buy-Back Mandate		
8.	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%

Signed (and sealed) this ____________ day of ________________, 2017

____
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.

(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 8 June 2017 shall be eligible to attend the Meeting or appoint proxies to attend and vote in his/her stead.

(vii) Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the 15th Annual General Meeting will be put to vote by way of poll.

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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