ANNUAL REPORT **2017**

KNM GROUP BERHAD
(521348-H)

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

WORLD CLASS PROCESS EQUIPMENT MANUFACTURER
AND TOTAL SOLUTIONS PROVIDER

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

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Form of Proxy

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	

GROUP COMPANY SECRETARY
Jason Minos Anak Peter
LS 0009402
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
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 IS HEREBY GIVEN THAT the 16th 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 Wednesday, 27 June 2018 at 10.00 a.m. for the following purposes:

As Ordinary Business:

1. To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2017 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 Constitution:

   (a) Ir Lee Swee Eng — ***Ordinary Resolution 1***

   (b) Soh Yoke Yan — ***Ordinary Resolution 2***

3. To approve the Directors' fees and benefits of RM1,347,000 for the financial year ended 31 December 2017. — ***Ordinary Resolution 3***

4. To re-appoint Messrs KPMG PLT 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** Dato' Ab Halim bin Mohyiddin be and is hereby retained as an Independent 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 Constitution 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 total number of issued shares 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."

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 Constitution, 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 number of issued shares 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 2017; 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."

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 30 April 2018 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

Jason Minos Anak Peter (LS 0009402)
Company Secretary
Seri Kembangan
30 April 2018

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 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 20 June 2018 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 16th Annual General Meeting will be put to vote by way of poll.

EXPLANATORY NOTES ON SPECIAL BUSINESS

1. Retention of Dato' Ab Halim bin Mohyiddin as Independent Director

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 cumulative term limit of nine (9) years as an Independent Director as prescribed by the Malaysian Code on Corporate Governance 2017, 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 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 KNM 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.

Shareholders' approval for Ordinary Resolution 5 will be sought on a single-tier voting basis.

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 15th Annual General Meeting held on 15 June 2017 ("Previous Mandate") and such authority will lapse at the conclusion of the forthcoming 16th Annual General Meeting to be held on 27 June 2018.

(b) 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 total number of issued shares of the Company for the time being for such purposes as the Directors deem fit and in the best interest of the Company. This authority, unless revoked at a general meeting, will expire at the conclusion of the next annual general meeting of the Company.

(c) Pursuant to the Previous Mandate, the Company has issued 213,281,400 new ordinary shares in the Company ("Placement Shares"), representing approximately ten percent (10%) of the total number of issued shares of the Company (excluding treasury shares) at an issue price of RM0.24 per share via a Private Placement Exercise involving the new issue of shares as previously announced on 10 November 2017 (the "Exercise"). The gross proceeds raised pursuant to the Exercise has been utilised as follows:-

Purpose	**Utilisation (RM'000)**
Repayment of bank borrowings	40,000
Working capital requirements	9,733
Defrayment of expenses related to the Exercise	1,455
Total	51,188

(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 15th Annual General Meeting held on 15 June 2017 and empower the Company to purchase the Company's shares up to ten percent (10%) of the total number of issued shares 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 KNM 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 KNM 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 30 April 2018 which is despatched together with the Company's Annual Report 2017.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

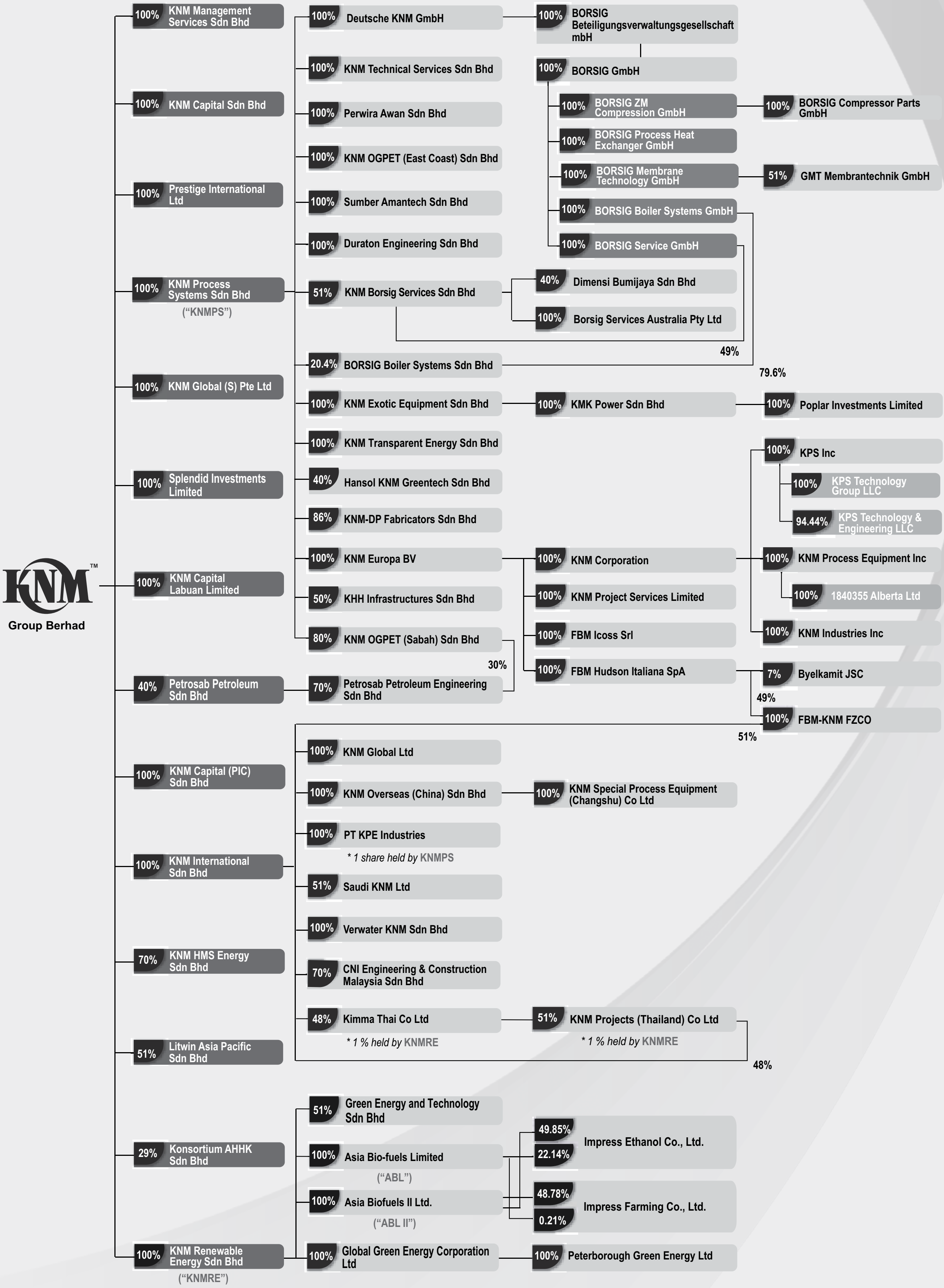
1. Details of persons who are standing for election as Directors

   There is no individual seeking election as a Director at the 16th 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 16th 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 2017.

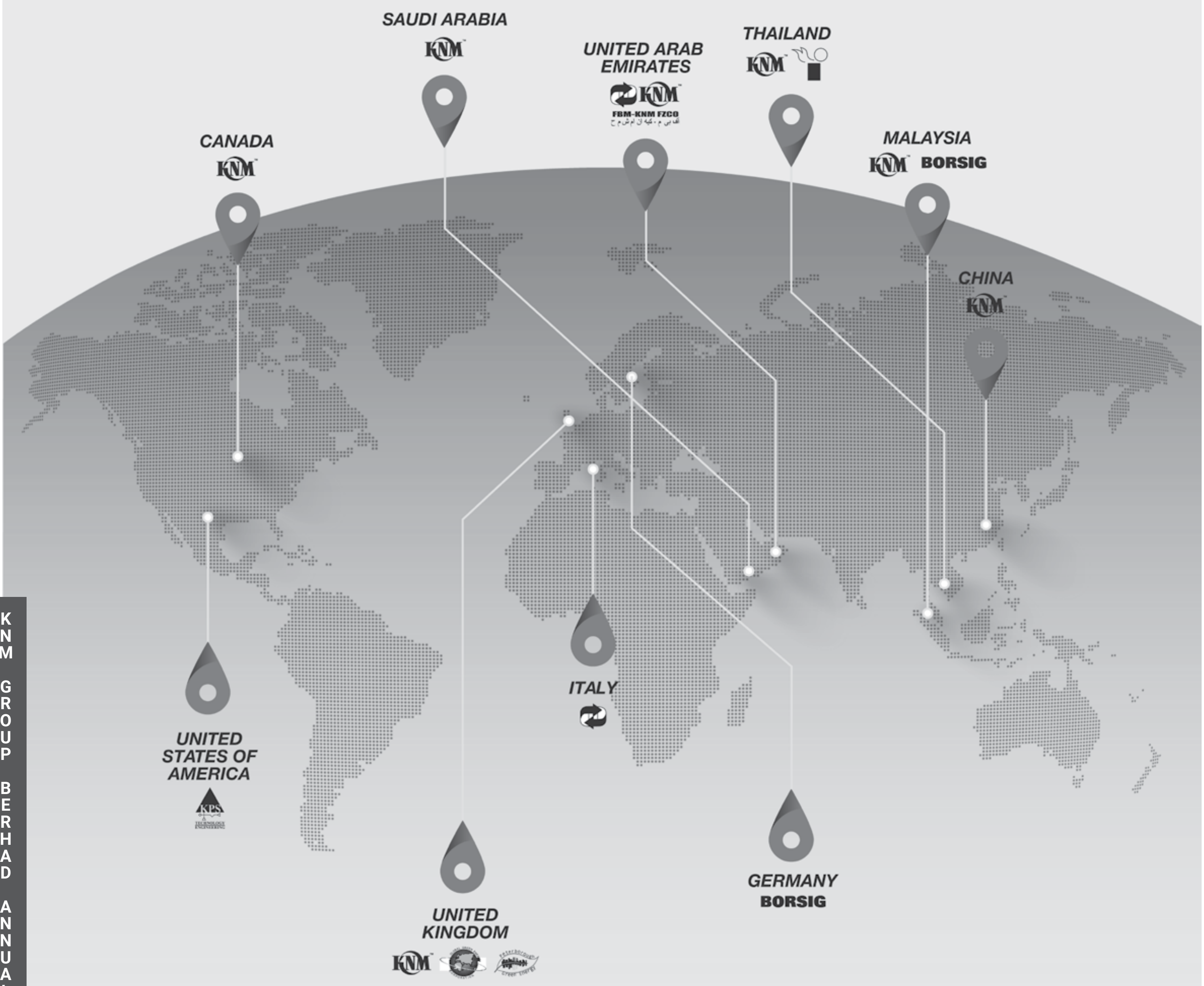
2. Ordinary resolution on authority to Directors to allot and issue shares

   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 2018

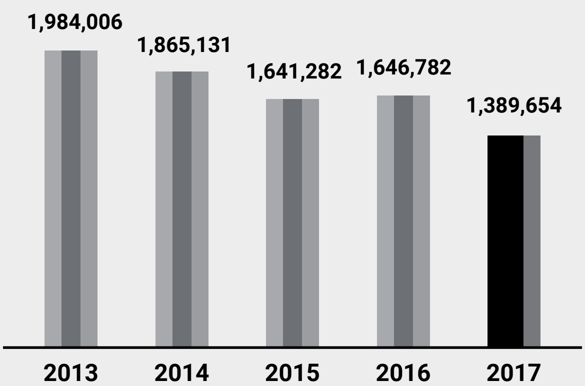


GLOBAL PRESENCE

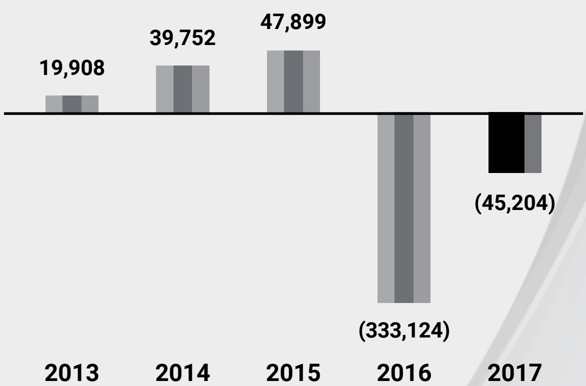


	2017	2016	2015	2014	2013
Revenue (RM'000)	1,389,654	1,646,782	1,641,282	1,865,131	1,984,006
(Loss)/Profit Before Tax (RM'000)	(28,518)	(316,647)	124,135	118,249	44,557
(Loss)/Profit After Tax (RM'000)	(45,204)	(333,124)	47,899	39,752	19,908
(Loss)/Earnings Before Interest, Tax, Depreciation and Amortisation (RM'000)	117,386	(181,254)	263,144	269,428	198,599
Shareholders' Equity (RM'000)	2,396,222	2,385,418	2,718,794	2,162,046	2,059,755
Basic (Loss)/Earnings Per Share (sen)	(2.00)	(15.61)	2.65	2.72	1.47
Net Assets Per Share (RM)	1.01	1.11	1.26	1.32	1.38

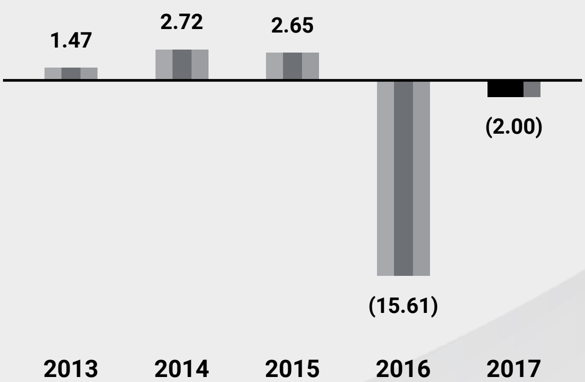
REVENUE (RM'OOO)



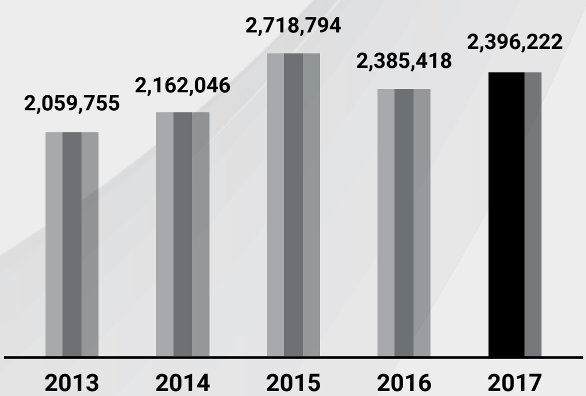
(LOSS)/PROFIT AFTER TAX (RM'OOO)



BASIC (LOSS)/EARNINGS PER SHARE (sen)



SHAREHOLDERS' EQUITY (RM'OOO)



Dato' Ab Halim Bin Mohyiddin
Chairman

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 2017.

Overall, 2017 will likely come to be remembered as the year during which the oil & gas industry emerged from the three-year depression. The underlying industries of our process equipment operations such as refining and petrochemical industries have been improving in 2017 in tandem with the increase in crude oil price.

It is my pleasure to inform that our Group has made significant achievement in 2017 where our first renewable energy business i.e. our bio-ethanol plant in Thailand has been successfully commissioned and commenced its commercial operation in September 2017. We are also proud to announce that our bio-ethanol plant is producing very high quality ethanol with more than 99.9% purity. The high quality ethanol has enabled Impress Ethanol Co., Ltd. ("IEL") to secure contracts from the well-established customers in Thailand. In addition, I would like to congratulate management of IEL for successfully obtained ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 certifications in March 2018.

IEL has in May 2017 commenced the construction of its additional 300,000-litre per day ethanol production facility ("Phase 2") which is expected to commence commercial operations in third quarter of 2019. By then, IEL will be able to produce 500,000 litres of ethanol per day.

I am pleased to see that our strategies and recurring income business initiatives are gradually bearing fruit which will boost our Group's future earnings. Our Group will continue its strategy to diversifying its sources of income from project based by building more long term sustainable recurring revenues from renewable energy businesses.

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

Not to forget, we also wish to extends our heartfelt appreciation 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.

MANAGEMENT DISCUSSION & ANALYSIS OPERATION OVERVIEW

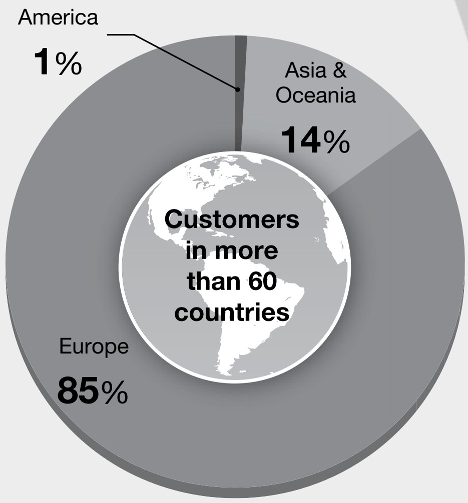
Our Group is well diversified with core businesses in project management, engineering, manufacturing, commissioning and maintenance of process equipment for the renewable energy, power, utilities, refining and petrochemical industries. We also provide one-stop process packages and integrated solutions for the oil and gas, power and renewable energy industries.

Our Group is transforming our income base by undertaking and become the owner of projects that generate recurring income. We are pleased to inform that our first recurring income business in renewable energy industry i.e. our bio-ethanol plant in Thailand has successfully commissioned and commenced its production of ethanol in September 2017. In addition, Impress Ethanol Co., Ltd. ("IEL") has in May 2017 commenced the construction of its facility for additional 300,000 litres per day capacity ("Phase 2") which is expected to commence commercial operation in third quarter of 2019.

The construction and services revenue mainly comprised revenues generated from supply of process equipment, which contributed approximately 69% of the total revenue; and ancillary services and sales of spare parts. Although IEL has only commenced its commercial operation since end of September 2017, it has contributed approximately 3% of our Group's revenue in FY2017 and the management is forecasting that sales from ethanol will contribute up to 15% of our Group's revenue in next financial year.

Revenue By Geographical Segment

(FY2017)



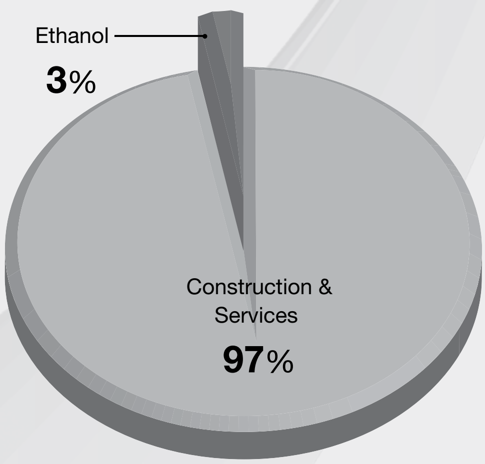
FINANCIAL PERFORMANCE

Our Group's revenue for the financial year ended 31 December 2017 ("FY2017") has recorded approximately RM1.4 billion as compared with the revenue of RM1.6 billion recorded in the financial year ended 31 December 2016 ("FY2016"), mainly due to lower revenue contribution from Asia and Oceanic segment, and America segment. However, the lower revenue was partially offset by the revenue contributed by the bio-ethanol plant in Thailand, which has been in commercial operations since September 2017. The Europe segment remained as the major revenue contributor to our Group in FY2017.

The losses before tax in FY2017 was reduced significantly from RM316.6 million in FY2016 to RM28.5 million in FY2017. The improvement was contributed by the improved operating performance by Europe, Asia and Oceania segments, lower operating loss in the America segment and continuous cost saving measures within the Group.

Revenue By Industry

(FY2017)



FINANCIAL POSITION

Total Assets

Total assets of our Group had reduced by RM274.7 million to RM4,366.7 million as at 31 December 2017, mainly due to depreciation of property, plant and equipment and reduction of cash and bank balances which were used to repay the borrowings and trade and other payables.

Liquidity and Capital Resources

On 29 November 2017, KNM had completed its additional listing of 213,281,400 shares pursuant to a private placement exercise. The private placement exercise had successfully raised approximately RM51.2 million proceeds for the Group. The proceeds were utilized to repay borrowings, for our Group's working capital and to pay the incidental expenses of the private placement exercise.

Our Group's borrowings has been reduced by RM132.4 million from RM1,321.4 million as at 31 December 2016 to RM1,189.0 million as at 31 December 2017. Consequently, the gearing ratio of Our Group as at 31 December 2017 has been reduced to 0.5 times as compared to 0.6 times as at 31 December 2016.

The cash and bank balances was at RM235.6 million as at 31 December 2017 as compared with RM419.2 million as at 31 December 2016, mainly due to repayment of borrowings and capital expenditure for Phase 2 of bio-ethanol plant in Thailand as well as repayment of trade and other payables.

RISK EXPOSURE

Our Group's revenue recognition is based on the stage of completion of the project. The fluctuation of the revenue recognised over the years mostly depends on the frequency of the new orders replenishment and the stage of completion of the projects. The risk for our Group is that if there is a delay in replenishing new orders and most projects are at their tail end, the revenue recorded will decrease. As such, we have established the recurring income streams to mitigate the fluctuation risk and expect to have more consistent performance in the future. For the bio-ethanol plant, we have also signed long-term offtake agreements with the customers to secure the future revenue for the Group.

Competitive risk is also one of our main risk. However, we will continue to take necessary steps to ensure quality products and services and develop innovative solutions to remain competitive.

Our Group operates in several countries and, therefore, is exposed to movements in foreign exchange rates. To mitigate the risk, our Group strives to constantly monitor the developments of our foreign currency exposure and will take the necessary steps to minimise their impacts. 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.

Our Thailand bio-ethanol plant uses cassava as the main raw material in its bio-ethanol production. As an agricultural crop, there may be fluctuations in volume and prices of cassava supply due to seasonal, climate and market forces. We are closely and continuously monitoring the market and price movements of cassava and negotiating long term contracts to mitigate the risks and normalise the fluctuations in cassava supply at a price level that makes the production cost competitive.

OUTLOOK

We anticipate that the outlook for year 2018 will remain challenging. The trade battle erupted in early April 2018 between United States of America and China has added more uncertainties to the global economy. The oil and gas industry will continue its slow recovery as upstream companies increase production, helping the midstream and services businesses as well. The outlook for the refining and marketing sector is stable, with earnings likely to increase 5-7% in 2018 (source: Moody's Oil & Gas -- Global 2018 Outlook).

The Management is optimistic on the prospect our bio-ethanol plant in Thailand. Through the period 2017 to 2019, domestic demand for ethanol is expected to increase by an average of 3-5% p.a. on the back of a general growth in demand for fuels and an expansion of the vehicle fleet capable to use higher ethanol mixes e.g. E20 (20% ethanol mixture) and E85 (85% ethanol mixture) (source: Bank of Ayudhya Public Company Limited, Krungsri Research May 2017). The Thailand Department of Energy Business is currently reviewing the phasing out of E10 in the Thailand oil retailing market nationwide. Once E10 is phased out, the use of E20 gasohol is expected to increase thus resulting in higher ethanol demand. Meanwhile, the world's crude oil price is expected to rise in year 2018. This is an important factor that benefits the ethanol industry as a whole. Under Thailand's ethanol policy, the government promotes the use of gasohol through price incentives and an excise tax reduction for cars compatible with E20 and E85 gasohol. As such, the Management is looking forward to the completion of IEL's Phase 2 which will bring positive growth to the Group.

PROFILE OF DIRECTORS

DATO' AB HALIM BIN MOHYIDDIN, DPMS
Independent Non-Executive Chairman
Aged 72, 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 the Chairman of the Company on 29 April 2013.

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

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

Presently, he is the Chairman of MISC Berhad and 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 62, 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 1976 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 or public listed companies.

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

DATO' DR KHALID BIN NGAH
Senior Independent Non-Executive Director
Aged 71, 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.

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 a Board member of KNM HMS Energy Sdn Bhd. He is not a Director of any other public or public listed companies.

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 58, 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 50, 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 not a Director of any other public listed companies.

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

GAN SIEW LIAT
Executive Director
Aged 57, 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 62, 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

CHEW FOOK SIN
Executive Director/Director of Group Contract Services
Aged 62, Male, Malaysian

Mr Chew Fook Sin is primarily responsible for the Contract Services 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.

Over the span of past 15 years, Mr Chew had held various positions in KNM Group namely, as the Head of Plant and Technology Division, Head of Contract Services and Head of Commercial Division.

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.

TAN KOON PING
Group Finance Director/Group Chief Financial Officer
Aged 47, Male, Malaysian

Mr 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.

ALEXANDER NEUBAUER
Chief Executive Officer (BORSIG Group)
Aged 51, Male, German

Mr 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.

FELIX WONG YEEN KEE
Chief Executive Officer (FBM Group)
Aged 42, Male, Malaysian

Mr 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.

FLAVIO PORRO
Group General Counsel
Aged 47, Male, Italian

Mr Flavio Porro was appointed the Group General Counsel of KNM Group Berhad on 5 January 2015. He obtained his law degree in Milan and holds post-graduate degrees in EC Community Law and Competition Law from King's College London, United Kingdom.

He is a registered lawyer and has more than 17 years of experience as a corporate lawyer essentially in the oil & gas, renewables and power production sectors focusing on challenging merger and acquisition projects, international bids, compliance and dispute resolution. Prior to his employment with KNM Group Berhad, he was the General Counsel of ERG Supply & Trading and a Senior Counsel in major energy corporations such as ENI, Snam S.p.A., ERG Power and Gas S.p.a. and Saipem.

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.

Notes:-
1. *Save for Mr Chew Fook Sin, all other Senior Management staff of KNM Group Berhad are not related to any family members of the Directors and/or major shareholders of the Company.*
2. *All Senior Management staff have no conflict of interests with the Company.*
3. *None of the Senior Management staff 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.*

The Board upholds the value of good governance and supports the need to cultivate an ethical and good corporate governance culture in the Group to promote accountability and build a sustainable business. It continues to stand guided by the principles set forth in the Malaysian Code of Corporate Governance 2012 ("the Code"), the relevant chapters of the Main Market Listing Requirements of Bursa Malaysia ("Bursa MMLR") on corporate governance ("CG") and all applicable laws and regulations throughout the financial year under review.

The Board also takes note of the new Malaysian Code on Corporate Governance 2017 ("MCCG 2017") which came into effect on 26 April 2017 to replace the Code and that the reporting on the full conformance with the MCCG 2017 by the Company shall be in its annual report commencing FY 2018.

This corporate governance overview statement is prepared pursuant to the principles and recommendations of the MCCG 2017 issued by the SC and Paragraph 15.25 of the Bursa MMLR.

Further in accordance to the recent changes to the Bursa MMLR, Chapter 15.25(2) now requires the Company to disclose the Company's annual Corporate Governance Report ("CG Report") comprising the detailed explanation on the application of the corporate governance practices and principles throughout the Company and is available online as published in the Company corporate website at www.knm-group.com ("corporate website").

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 objectives and direction 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 Company's vision and 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 which is published in the Company's corporate website.

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 corporate website.

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.

The appointment of Board members and Senior Management are based on objective criteria, merit and due regard for diversity in skills and experience.

Together, the Board members and Senior Management 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.

Appointments to the Board and Re-election of Directors

All appointments to the Board and its various Board Committees together with Senior Management 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 Constitution, 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/Executive Director 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 Directors who have served a tenure exceeding 9 years are independent and will exercise their independent judgment and act in the best interest of the Company in safeguarding the interest of the minority shareholders.

Under the recommendation of the MCCG 2017, 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 beyond 9 years, an approval from the shareholders shall be obtained at the annual general meeting.

In the event the Board continues to retain the Independent Director after the 12 years, an approval from the shareholders shall be obtained through a two-tier voting process at the annual general meeting. However, any shareholders' approval seek at the forthcoming annual general meeting shall be on a single-tier voting process as the two-tier voting process is not yet provided for in the Company's Constitution. This process would be incorporated in the Company's new Constitution, which is targeted to be tabled to the shareholders in the 2019 annual general meeting.

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, six (6) 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	6/6	100
Ir Lee Swee Eng	6/6	100
Dato' Dr Khalid bin Ngah	6/6	100
Dato' Sri Adnan bin Wan Mamat	4/6	67
Soh Yoke Yan	6/6	100
Gan Siew Liat	6/6	100
Chew Fook Sin	6/6	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.

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 his duties and his removal is a matter for the Board as a whole.

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

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

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

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

i) assessment and evaluation of the performance of the Board, 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 and senior management succession plans; and

iii) recommending for the Board's approval:-
  a) the retiring director(s) to be re-elected; and
  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.

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

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 Constitution which shall be in force from time to time. The ESOS Committee shall meet whenever necessary to fulfil its functions.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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 recommendations 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 Board will recommend the Director's fees and other benefits payable to Directors to the shareholders for approval at the annual general meeting of the Company. Details of the remuneration of the Directors for the year under review are provided in the CG Report.

Remuneration of Key Senior Management

In determining the remuneration packages of the Group's key Senior Management, the Board has taken into consideration the Senior Management responsibilities, skills, expertise, contributions to the Group's performance, and the competitiveness of the remuneration packages to attract and retain executive talents.

The Board has taken the reporting approach of a no named basis for Senior Management due to the fact that the Board is of the opinion that such disclosure would be disadvantageous to the Group's business interests, given the highly competitive conditions in the oil and gas industry where sourcing and poaching of executives is rampant.

The aggregate remuneration of the Company's top five key Senior Management as analysed into bands of RM50,000 for the year under review are as follows:-

Range of Total Remuneration	Key Senior Management
RM300,001 to RM350,000	1
RM500,001 to RM550,000	1
RM700,001 to RM750,000	1
RM1,050,001 to RM1,100,000	1
RM1,150,001 to RM1,200,000	1
Total	**5**

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	Updates on Companies Act 2016 / *KNM Group Berhad*	24 February 2017
	Integrity, The Game Changer / *Malaysian Institute of Accountants*	10 April 2017
	Global Market Scenario Talk Setting Through Turbulent Times / *MISC Berhad*	12 May 2017
	Updates on Malaysian Code on Corporate Governance 2017 ("MCCG 2017") / *KNM Group Berhad*	31 May 2017
	MCCG 2017 / Amway Holdings Berhad	15 November 2017

Directors	Title of the training programme/ Name of organizer	Date
Ir Lee Swee Eng	Updates on Companies Act 2016 / *KNM Group Berhad*	24 February 2017
	Updates on MCCG 2017 / *KNM Group Berhad*	31 May 2017
Dato' Dr Khalid bin Ngah	Updates on Companies Act 2016 / *KNM Group Berhad*	24 February 2017
	AAPG 2017 Annual Convention and Exhibition / *American Association of Petroleum Geologists*	2 – 5 May 2017
	Updates on MCCG 2017 / *KNM Group Berhad*	31 May 2017
Dato' Sri Adnan bin Wan Mamat	Updates on Companies Act 2016 / *KNM Group Berhad*	24 February 2017
	Updates on MCCG 2017 / *KNM Group Berhad*	31 May 2017
Soh Yoke Yan	Updates on Companies Act 2016 / *KNM Group Berhad*	24 February 2017
	Updates on MCCG 2017 / *KNM Group Berhad*	31 May 2017
	The New Companies Act 2016 – How it will Affect Recovery of Your Unsecured Million Dollar Debts / *Malaysian Institute of Accountants*	11 October 2017
Gan Siew Liat	Updates on Companies Act 2016 / *KNM Group Berhad*	24 February 2017
	Updates on MCCG 2017 / *KNM Group Berhad*	31 May 2017
Chew Fook Sin	Updates on Companies Act 2016 / *KNM Group Berhad*	24 February 2017
	Updates on MCCG 2017 / *KNM Group Berhad*	31 May 2017
	Bursa Risk Management Programme – *"I Am Ready to Manage Risks" /* *Bursa Malaysia Berhad*	22 August 2017

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 2016 ("the Act")(wherever applicable). The Act 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.

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, organisational, 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 judgement 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 RM256,795 (2016: RM460,391).

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 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, Bursa Malaysia's Corporate Disclosure Guide and MCCG 2017 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 corporate website 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 any queries that are posted by shareholders and clarification made 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 corporate 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.

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 29 November 2017, KNM had completed its Private Placement exercise of 213,281,400 new ordinary shares in KNM to independent third party investor(s). The proceeds raised and its utilisation thereof are set out below:-

Purpose	Utilisation RM'000
Working capital	40,000
Repayment of bank borrowings	9,733
Expenses relating to the exercise	1,211
Balance of unutilised expenses relating to the exercise* (As at 31.12.2017)	244
Total	**51,188**

Note:-
* *The amount of RM244,000 for expenses relating to the exercise had been fully utilised as at-todate.*

2. Related Party Transactions

All related party transactions for 2017 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 2017 were as follows:-

	Company (RM)	Group (RM)
• **Audit services**		
- Messrs KPMG PLT	206,000	649,000
- Affiliates of KPMG PLT in overseas	–	2,040,000
- Other auditors	–	339,000
• **Non-audit services**		
- Messrs KPMG PLT*	10,000	10,000
- Affiliates of KPMG PLT in Malaysia**	9,000	125,000
- Affiliates of KPMG PLT in overseas***	–	348,000
- Other auditors**	–	36,000
Total	**225,000**	**3,547,000**

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 2017 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 2017 are as below:-

a) From Inter Merger Sdn Bhd, a substantial shareholder to the Company for RM298,600.00; and
b) From KNM's Director, Chew Fook Sin to the Company's wholly-owned subsidiary, KNM Process Systems Sdn Bhd for RM861,165.98.

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.

INTRODUCTION

KNM Group Berhad recognises the importance of observing and developing its businesses in a sustainable and responsible manner.

This inaugural Corporate Sustainability Statement covers the key sustainability activities of the group; whereby the Group is committed to observe and assist in elevating the economic, environmental and social well being of the community ("EES"). It carries out its EES initiatives in any manner possible including but not limited to developing and promoting its businesses, expanding its humanitarian and social networks besides ensuring the sustainability of the environment, both locally and on the international front.

To the Company, EES is initiated by integrating business practices that are based on economic and ethical values as well as respect for the socio-community, environment, shareholders and other stakeholders.

The Group EES framework is designed to deliver sustainable value to company and its group, the public and society at large and to ensure that the interest of the Group's investors in general are adequately protected and that 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.

GOVERNANCE STRUCTURE

The sustainability governance structure of the Group will be led by the Group Finance Director/CFO who chairs the Sustainability Committee. Findings of the Sustainability Committee are reported to the Group Chief Executive Officer ("CEO") who shall authorise the Sustainability Statements/Reports (i.e. relating to the management of all economic, operational, governance and financial aspects of the Group) to be submitted to the Board for approval. Any decision made by the Board shall then cascade downwards to the executive directors and the Group CEO; who together with the Senior Management Team will execute the decisions of the Board. The Board of Directors has the overall responsibility for risk oversight and management and sustainability governance within the Group.

The Group progressively explores the various structures to further enhance and complement the existing corporate risk and sustainability governance structures at hand that will also have the least impact on time and costs yet accomplishing the tasks and requisite returns/results in a more effective manner [for example, by holding executive committee/management meetings and having direct discussions with the local management team].

ECONOMIC

The Group is continuously on the lookout for growth and expansionary opportunities with a view to maximising profits, increasing wealth, creating jobs and optimising investment returns for its stakeholders and investors.

The Group focuses its strengths on key business areas and expertise in its Process Equipment Division and Renewable Energy, Power and Utilities Division with emphasis on securing Engineering, Procurement, Construction and Commissioning ("EPCC") contracts that helps to bring on recurring incomes for the Group through having regular operation and maintenance ("O&M") jobs upon completion of the EPCC works.

Reduction of operating costs while improving quality, productivity and delivery time in respect of the Group's products and services - forms a core activity that the Group continuously emphasise on. Generally, the Group will do bulk procurement on group basis for essential materials (wherever possible) [e.g. steel plates, tubes and forgings], to ensure consistent supply and delivery of quality materials from reputable sources at discounted prices.

ENVIRONMENTAL

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 bioethanol from cassava/molasses;

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.

Based on the Group's strategic direction, the Group intends to be a leading player in the renewable energy sector and widen its income base by undertaking and become owners 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. To-date, the Group has invested and owns the following main projects:-

a. Impress Ethanol Project in Thailand ("IEL Project") – which involves the erection of a 500,000 liters per day capacity Bio-ethanol Plant situated on a 171-acre (80 hectares) site at Chachoengsao Province, located at 135 kilometre east of Bangkok, Thailand by KNM Process Systems Sdn Bhd; and

b. Peterborough Green Energy Project ("PGEL Project") – which involves the erection of a net 36MW Energy from Waste ["EfW"] Power Plant situated on a 331,800 square meters site at Plot U13, Storeys Bar Road, Peterborough, United Kingdom, currently being carried out by China Western Power Industrial Co. Ltd. ["CWPC"].

With the undertaking of the above Projects, the Group intends to optimise on waste management and revert to usage and production of alternative energies (e.g. biofuels and solar power) to reduce reliance on hydrocarbons and fossil energy.

Apart thereto, wherever possible, all staff are encouraged to "repair, reduce, reuse and recycle" and adopt waste management and 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.

SOCIAL

Corporate social initiatives are taken on key areas involving the workplace, the community and the marketplace, (in no particular order) besides the environment as mentioned above.

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.

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 CS initiatives.

Led by KNM's BORSIG Group in Germany, the Group actively participated and sponsored:-
a. the German Society for Non-Destructive Testing ("Deutsche Gesellschaft für zerstörungsfreie Prüfung");
b. the 2017 Ammonia Plants & Related Facilities Symposium; as well as
c. the European Ethylene Producers Conference 2017 ("EEPC");
that facilitated *inter alia* the networking and sharing of safety information besides promoting product knowledge.

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. Malaysian Investment Development Authority's (MIDA) 50th Anniversary – towards MIDA's commitment in transforming the nation's industrial landscape - from an agricultural-based economy into a highly industrialized and service-oriented nation. This has stimulated the development of other industries and contributed to the rise of local vendors that in turn, attracts more companies to invest in Malaysia and avail themselves to the supply chain and ecosystem created over the years.

b. Danajamin's Mighty7 Run – a charity fund raising event organized by Danajamin Nasional Berhad (Malaysia's first and only Financial Guarantee Insurer) in aid of the National Autism Society of Malaysia.

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.

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 besides participating in a major sport project (6 kilometer Run Event with about 17,000 runners) for its employees hosted by SC TF Veranstaltungs gGmbH (that forms part of SC Tegeler Forst e.V. a sporting club (SC) in Berlin).

c. BORSIG Germany continued to support and contribute towards other numerous causes, for example:-
   - UNICEF's Christmas Cards sale - for its fund raising program.
   - Wirtschaftsarchiv's archiving activities - concerning local research in relation to the promotion of regional economic history and industrial culture.
   - Funding and equipping Forderverein 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.

d. In Thailand, Impress Ethanol Co. Ltd has helped to donate and participated in food contributions and cooking activities with the local villagers for the various temples held in conjunction with the Thodkrathin Festival.

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.

LOOKING AHEAD

The Group remains resolute and aims to implement further sustainable measures in respect of its tri-fold commitment *inter alia* towards:-

a. Value creation for increased market growth and outreach, improved operational efficiency and better financial performances from its business operations;
b. Increasing its market lead and participation in the renewable energy sector; and
c. Remaining steadfast in its giving back better returns to the stakeholders, community and society at large, wherever its operations may be.

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 2017.

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 seven (7) meetings held during the financial year ended 31 December 2017 are as follows:-

Name of member	Designation	Directorship of the member	Attendance
Dato' Ab Halim bin Mohyiddin	Chairman	Independent Non-Executive Chairman	7/7 (100%)
Dato' Dr Khalid Bin Ngah	Member	Senior Independent Non-Executive Director	7/7 (100%)
Soh Yoke Yan	Member	Independent Non-Executive Director	6/7 (86%)
Dato' Sri Adnan bin Wan Mamat	Member	Independent Non-Executive Director	6/7 (86%)

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 2018, 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.

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 headed by Madam Tan Siok Keng who has extensive experience in the field of internal auditing 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 RM256,795 (2016: RM460,391) were incurred for the internal audit functions in respect of the financial year ended 31 December 2017.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

THE BOARD'S RESPONSIBILITY

The Board of Directors ("the Board") of KNM Group ("the Group") affirms its responsibility for maintaining a sound system of risk management and 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 Finance Director, 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.

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

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

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

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

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

ASSOCIATES AND JOINT VENTURES

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

ASSURANCE

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

The Board is of view that the risk management and internal control systems of the Group is satisfactory. The Board and management will continue to take measures to strengthen the Risk Management and Internal Control system with a view to further enhance its effectiveness and to ensure new and additional risk identified are managed within tolerable limits and dealt with in a timely manner.

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FINANCIAL STATEMENTS

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 2017.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding activities and the 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)/Profit for the year attributable to:		
Owners of the Company	(43,007)	2,896
Non-controlling interests	(2,197)	–
	(45,204)	2,896

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 year and until the date of this report are as follows:

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

LIST OF DIRECTORS OF SUBSIDIARIES

Pursuant to Section 253 of the Companies Act 2016, the list of Directors of the subsidiaries (excluding Directors who are also Directors of the Company) in office during the financial year and during the period from the end of the financial year to the date of the Report are as follows:

Abdulllatif Mohammed Salem Al Barrak	
Alexander Neubauer	
Carsten Birk	
Chew Fun Sing	
Dato' Norazman bin Hamidun	
Dinesh Krishna Pai	
Dr. Thomas Beeskow	
Felix Wong Yeen Kee	
Filippo Molinari	
Flavio Porro	
Gregory Douglas Mallam	
Jacky Antoine Valenza	
John C Mah	
Jürgen Stegger	
Lucas Franciscus Simon Bagchus	
Marcus Friedrichs	
Mohammed Nasser Hazza Al Fehaid Al Subaei	
Mohd Rizal Bahari bin Md Noor	
Mohd Zaini bin Buang	
Naushad Ally Sohoboo	
Ng Boon Su	
Normen Norbert Seifert	
Phoon Hee Yau	
Radzali bin Abdul Rahman	
Ronald Gerardo Gualy	
Sandeep Fakun	
Sara Lee Mei Ching	
Syed Omar bin Syed Abdullah	
Tan Koon Ping	
Thanika Chintanapunt	
Warinat Lim	
Wilhelmus Petrus Jansen	
Wong Toh Sing	*(Appointed on 20 February 2017)*
Oliver Kuehner	*(Appointed on 1 May 2017)*
Rohaizad bin Yunus @ Mohamed Yunus	*(Appointed on 1 June 2017)*
Dato' Mat Isa bin Kadir	*(Appointed on 19 October 2017)*
Shamkant Babaji Bhor	*(Appointed on 1 November 2017)*
Chintamani Shridhar Vaidya	*(Appointed on 1 November 2017)*
Dr. Timo Bauer	*(Appointed on 1 December 2017)*
Ong Kuan Ming	*(Appointed on 24 January 2018)*
Chong Chiew Han	*(Appointed on 24 January 2018)*
Krish Follett	*(Resigned on 2 February 2017)*
Heinz-Werner Wied	*(Resigned on 17 February 2017)*
Sarita Lee Mei Ling	*(Resigned on 20 February 2017)*
Andre Petrus E Geens	*(Resigned on 1 June 2017)*
Wong Lay Fong	*(Resigned on 1 June 2017)*
Anthony Chew	*(Resigned on 30 June 2017)*
Zainudin bin Zulkifli	*(Resigned on 7 July 2017)*
Lee Wai Kit	*(Resigned on 28 July 2017)*
Reiner Dreher	*(Resigned on 30 November 2017)*
Chua Tiam Wee	*(Resigned on 24 January 2018)*

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 1.1.2017	**Bought**	**Sold**	**At 31.12.2017**
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	37,408,838	–	–	37,408,838
Gan Siew Liat	9,045,000	–	–	9,045,000
Chew Fook Sin	5,173,140	–	–	5,173,140
Indirect interests				
Ir Lee Swee Eng	414,674,859	21,898,100	(107,470,103)	329,102,856
Soh Yoke Yan	120,000	–	(120,000)	–
Gan Siew Liat	414,674,859	21,898,100	(107,470,103)	329,102,856
Chew Fook Sin	22,448,058	–	–	22,448,058

	Number of Warrant A				
	At 1.1.2017	**Bought**	**Sold**	**Expired on 15.11.2017**	**At 31.12.2017**
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	–	(3,632,100)	(6,578,616)	–
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	–	(42,363,149)	(86,178,678)	–
Gan Siew Liat	128,541,827	–	(42,363,149)	(86,178,678)	–
Chew Fook Sin	6,858,251	–	(6,332,149)	(526,102)	–

DIRECTORS' INTERESTS (CONTINUED)

		Number of Warrant B		
	At 1.1.2017	Bought	Sold	At 31.12.2017
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	–	(343,036)	2,226,562
Gan Siew Liat	874,375	–	–	874,375
Chew Fook Sin	358,595	–	–	358,595
Indirect interests				
Ir Lee Swee Eng	32,583,340	–	(15,652,700)	16,930,640
Soh Yoke Yan	10,000	–	–	10,000
Gan Siew Liat	32,583,340	–	(15,652,700)	16,930,640
Chew Fook Sin	1,943,171	–	(950,000)	993,171

		Number of ESOS Options		
	At 1.1.2017	Granted	Exercised	At 31.12.2017
ESOS options in which Directors have interests in the Company				
Direct interests				
Dato' Ab. Halim bin Mohyiddin	1,540,905	513,635	–	2,054,540
Ir Lee Swee Eng	8,691,138	2,897,046	–	11,588,184
Dato' Dr. Khalid bin Ngah	1,143,846	381,282	–	1,525,128
Soh Yoke Yan	1,143,846	381,282	–	1,525,128
Gan Siew Liat	7,893,846	2,631,282	–	10,525,128
Chew Fook Sin	7,893,846	2,631,282	–	10,525,128
Indirect interests				
Ir Lee Swee Eng	913,551	304,517	–	1,218,068
Gan Siew Liat	913,551	304,517	–	1,218,068

		Number of membership interest		
	At 1.1.2017	Bought	Sold	At 31.12.2017
Shareholdings in which a Director has direct interest in a subsidiary				
- KPS Technology & Engineering LLC				
Ir Lee Swee Eng	100,000	–	–	100,000

DIRECTORS' INTERESTS (CONTINUED)

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 Directors holding office as at 31 December 2017 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

During the financial year, the Company:

a) issued 23,213 new ordinary shares for a total cash consideration of RM22,748 arising from the exercise of Warrant A at an exercise price of RM0.98 per ordinary share; and

b) issued 213,281,400 new ordinary shares via a private placement to eligible investors for a total cash consideration of RM51,187,536 including transaction costs of RM1,266,528.

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

There were no other changes in the 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.

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 1.1.2017**	**Granted and allocated**	**Exercised**	**Lapsed**	**At 31.12.2017**
25.7.2014	24.7.2022	0.65	22,536,932	–	–	(1,691,200)	20,845,732
25.7.2015	24.7.2022	0.65	22,482,776	–	–	(1,777,933)	20,704,843
25.7.2016	24.7.2022	0.65	22,397,946	–	–	(1,717,258)	20,680,688
25.7.2017	24.7.2022	0.65	–	20,428,005	–	(30,386)	20,397,619
			67,417,654	20,428,005	–	(5,216,777)	82,628,882

SHARE BUY-BACK

On 15 June 2017, the shareholders of the Company renewed the Company's plan to repurchase its own shares as disclosed in Note 14.2 to the financial statements.

During the financial year, the Company purchased 10,000 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 RM0.28 per share. The total consideration paid was RM2,846 including transaction costs of RM44. 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 2017, the Company held 23,341,275 ordinary shares as treasury shares out of its total issued share capital. Hence, the number of outstanding shares in issue and paid-up after deducting treasury shares as at 31 December 2017 is 2,346,095,980 ordinary shares. The treasury shares have no rights to voting, dividends or participation in other distribution.

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 at a cost of RM80,252. There is no indemnity or insurance effected for the auditors of the Group and of the Company.

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 2017 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.

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, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 21 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: 28 April 2018

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets					
Property, plant and equipment	3	1,393,757	1,404,817	–	–
Goodwill	4	918,308	894,502	–	–
Other intangible assets	4	496,502	512,071	–	–
Interests in subsidiaries	5	–	–	2,054,614	1,808,622
Investments in associates	6	21	22	–	–
Investments in joint ventures	7	5,479	3,098	40	40
Other investments	8	5,467	525	–	–
Deferred tax assets	9	344,243	347,858	–	–
Total non-current assets		3,163,777	3,162,893	2,054,654	1,808,662
Inventories	10	100,870	73,732	–	–
Current tax assets		15,274	13,762	1,543	492
Trade and other receivables	11	848,910	969,950	219,493	205,080
Derivative financial assets	12	2,242	1,939	–	–
Cash and bank balances	13	235,638	419,183	365	218,038
Total current assets		1,202,934	1,478,566	221,401	423,610
Total assets		4,366,711	4,641,459	2,276,055	2,232,272

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Equity					
Share capital		1,883,513	1,005,617	1,883,513	1,005,617
Share premium		–	782,971	–	782,971
Treasury shares		(53,425)	(53,422)	(53,425)	(53,422)
Reserves		566,134	650,252	107,334	149,341
Total equity attributable to owners of the Company	14	2,396,222	2,385,418	1,937,422	1,884,507
Non-controlling interests		13,514	3,455	–	–
Total equity		2,409,736	2,388,873	1,937,422	1,884,507
Liabilities					
Loans and borrowings	15	701,911	839,695	334,107	333,937
Long term payables	17	8,976	10,589	–	643
Long service leave liability		7,574	7,097	–	–
Deferred tax liabilities	9	192,287	191,054	–	–
Total non-current liabilities		910,748	1,048,435	334,107	334,580
Loans and borrowings	15	487,055	481,704	–	–
Current tax liabilities		4,082	2,069	–	–
Deferred income	18	114,571	120,383	–	–
Trade and other payables	19	437,005	588,063	4,526	13,185
Derivative financial liabilities	12	3,514	11,932	–	–
Total current liabilities		1,046,227	1,204,151	4,526	13,185
Total liabilities		1,956,975	2,252,586	338,633	347,765
Total equity and liabilities		4,366,711	4,641,459	2,276,055	2,232,272

The notes on pages 61 to 148 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Revenue	20	1,389,654	1,646,782	3,692	5,702
Contract costs recognised as an expense		(1,131,089)	(1,640,313)	–	–
Cost of sales		(37,067)	–	–	–
Gross profit		221,498	6,469	3,692	5,702
Administration expenses		(177,583)	(199,497)	(5,785)	(6,420)
Other income		51,261	13,696	6,409	143
Other operating expenses		(78,665)	(96,165)	(6,798)	(13)
Results from operating activities	21	16,511	(275,497)	(2,482)	(588)
Finance costs		(47,847)	(44,422)	(16,649)	(5,841)
Finance income		517	2,132	22,031	5,777
Share of profit of equity-accounted associates and joint ventures, net of tax		2,301	1,140	–	–
(Loss)/Profit before tax		(28,518)	(316,647)	2,900	(652)
Tax expense	22	(16,686)	(16,477)	(4)	(765)
(Loss)/Profit for the year		(45,204)	(333,124)	2,896	(1,417)
Items that are or may be reclassified subsequently to profit or loss					
Cash flow hedge		435	2,006	–	–
Foreign currency translation differences for foreign operations		(62,354)	30,845	–	–
Hedge of net investment in subsidiaries		62,680	(39,689)	–	–
Realisation of revaluation reserve on property, plant and equipment written off		–	1,904	–	–
Share of gain of equity-accounted associates and joint ventures		1,362	107	–	–
Other comprehensive income/(expense) for the year, net of tax		2,123	(4,827)	–	–
Total comprehensive (expense) /income for the year		(43,081)	(337,951)	2,896	(1,417)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
(Loss)/Profit attributable to:					
Owners of the Company		(43,007)	(332,981)	2,896	(1,417)
Non-controlling interests		(2,197)	(143)	–	–
(Loss)/Profit for the year		(45,204)	(333,124)	2,896	(1,417)
Total comprehensive (expense)/income attributable to:					
Owners of the Company		(39,215)	(334,063)	2,896	(1,417)
Non-controlling interests		(3,866)	(3,888)	–	–
Total comprehensive (expense)/income for the year		(43,081)	(337,951)	2,896	(1,417)
Basic and diluted earnings per ordinary share (sen)	23	(2.00)	(15.61)		

The notes on pages 61 to 148 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

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

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 2017	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
Foreign currency translation differences for foreign operations	–	–	–	–	(60,685)	–	–	–	–	(60,685)	(1,669)	(62,354)
Hedge of net investment	–	–	–	–	62,680	–	–	–	–	62,680	–	62,680
Cash flow hedge	–	–	–	–	–	–	435	–	–	435	–	435
Share of other comprehensive income of equity-accounted investees	–	–	–	–	1,362	–	–	–	–	1,362	–	1,362
Other comprehensive income/(expense) for the year	–	–	–	–	3,357	–	435	–	–	3,792	(1,669)	2,123
Loss for the year	–	–	–	–	–	–	–	–	(43,007)	(43,007)	(2,197)	(45,204)
Total comprehensive (expense)/income for the year	–	–	–	–	3,357	–	435	–	(43,007)	(39,215)	(3,866)	(43,081)
Contributions by and distributions to owners of the Company												
- Share buy-back	–	–	(3)	–	–	–	–	–	–	(3)	–	(3)
- Acquisition of equity interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	13,925	13,925
- Share-based payment	–	–	–	–	–	78	–	–	–	78	–	78
- Issuance arising from private placement	49,921	–	–	–	–	–	–	–	–	49,921	–	49,921
- Issuance arising from exercise of warrants	23	–	–	–	–	–	–	–	–	23	–	23
- Transfer of warrant reserve upon expiry of Warrant A	44,981	–	–	–	–	–	–	(44,981)	–	–	–	–
Total transactions with owners of the Company	94,925	–	(3)	–	–	78	–	(44,981)	–	50,019	13,925	63,944
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016	782,971	(782,971)	–	–	–	–	–	–	–	–	–	–
At 31 December 2017	1,883,513	–	(53,425)	93,301	(209,343)	18,365	(1,902)	27,468	638,245	2,396,222	13,514	2,409,736
	Note 14.1	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 61 to 148 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	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 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 January 2017	1,005,617	782,971	(53,422)	18,287	72,449	58,605	1,884,507
Profit for the year/ Total comprehensive income for the year	–	–	–	–	–	2,896	2,896
Contributions by and distributions to owners of the Company							
- Share buy-back	–	–	(3)	–	–	–	(3)
- Share-based payment	–	–	–	78	–	–	78
- Issuance arising from private placement	49,921	–	–	–	–	–	49,921
- Issuance arising from exercise of warrants	23	–	–	–	–	–	23
- Transfer of warrant reserves upon expiry of Warrant A	44,981	–	–	–	(44,981)	–	–
Total transactions with owners of the Company	94,925	–	(3)	78	(44,981)	–	50,019
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016	782,971	(782,971)	–	–	–	–	–
At 31 December 2017	1,883,513	–	(53,425)	18,365	27,468	61,501	1,937,422
	Note 14.1	Note 14.1	Note 14.2	Note 14.5	Note 14.7		

The notes on pages 61 to 148 are an integral part of these financial statements.

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash flows from operating activities					
(Loss)/Profit before tax		(28,518)	(316,647)	2,900	(652)
Adjustments for:					
Amortisation of intangible assets		30,167	32,491	–	–
Change in fair value of forward contracts		(5,621)	(9,608)	–	–
Depreciation of property, plant and equipment		7,883	6,857	–	–
Gain on disposal of property, plant and equipment		(24)	(199)	–	–
Unrealised (gain)/loss on foreign exchange		(19,368)	(2,353)	5,598	(128)
Interest expense		44,290	36,670	16,647	5,839
Interest income		(517)	(2,132)	(22,031)	(5,777)
Property, plant and equipment written off		1,065	1,185	–	–
Bad debts written off		1,338	7,431	–	–
Investment in subsidiaries written off		–	–	1,200	–
Provision for foreseeable losses		–	279	–	–
Provision for late delivery charges		104	447	–	–
Provision for warranty		2,410	18,273	–	–
Impairment:					
- Property, plant and equipment		–	11,347	–	–
- Receivables		13,317	27,060	–	–
Reversal of impairment loss on receivables		(7,137)	–	–	–
Share-based payments	16	78	695	44	314
Share of gain of equity-accounted associates and joint ventures, net of tax		(2,301)	(1,140)	–	–
Operating profit/(loss) before changes in working capital		37,166	(189,344)	4,358	(404)
Changes in working capital:					
Inventories		(29,624)	2,266	–	–
Trade and other receivables	(i)	85,513	124,747	11,882	3,094
Trade and other payables		(158,489)	(119,605)	(8,490)	(29,245)
Cash (used in)/generated from operations		(65,434)	(181,936)	7,750	(26,555)
Tax paid		(16,486)	(4,569)	(1,055)	(1,854)
Interest paid		(369)	(370)	–	–
Interest received		517	2,132	–	5,777
Net cash (used in)/generated from operating activities		(81,772)	(184,743)	6,695	(22,632)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash flows from investing activities					
Acquisition of other intangible assets		(491)	(2,050)	–	–
Acquisition of property, plant and equipment	(ii)	(29,511)	(24,635)	–	–
Acquisition of subsidiaries, net of cash acquired	32	–	(69,310)	–	–
Change in pledged deposits		(18,976)	(94)	–	–
Proceeds from disposal of property, plant and equipment		7,217	6,673	–	–
Repayments to subsidiary	(i)	–	–	(260,557)	(87,689)
Net cash used in investing activities		(41,761)	(89,416)	(260,557)	(87,689)
Cash flows from financing activities					
Interest paid		(43,921)	(36,300)	(13,752)	(5,839)
Net (repayments of)/proceeds from					
- Bills payable		(6,129)	89,780	–	–
- Finance lease liabilities		(9,799)	(8,850)	–	–
- Terms loans, bonds and revolving credit		(68,105)	479,690	–	333,937
Proceeds from issuance of shares		49,944	–	49,944	–
Share buy-back		(3)	(8)	(3)	(8)
Issuance of ordinary shares to non-controlling interest		13,925	–	–	–
Net cash (used in)/generated from financing activities		(64,088)	524,312	36,189	328,090
Net (decrease)/increase in cash and cash equivalents		(187,621)	250,153	(217,673)	217,769
Effect of foreign currency translation		(28,513)	(32,318)	–	–
Cash and cash equivalents at beginning of year		411,719	193,884	218,038	269
Cash and cash equivalents at end of year	(iii)	195,585	411,719	365	218,038

Reconciliation of liabilities arising from financing activities

The following tables illustrated the changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash charges during the financial year of the Group and of the Company:

	Bills payable RM'000	Term loans RM'000	Revolving credit RM'000	Finance Lease liabilities RM'000
Group				
At 1 January 2017	182,374	590,519	513,920	29,676
Acquisition of property, plant and equipment	–	–	–	6,548
Net (repayments of)/proceeds from	(6,129)	9,526	(77,631)	(9,799)
Unrealised gain on foreign exchange	(2,732)	(4,403)	(1,985)	–
Effect of foreign currency translation	(14,762)	(3,182)	(41,435)	(62)
At 31 December 2017	158,751	592,460	392,869	26,363

	Fixed rate guaranteed Thai Baht bonds RM'000
Company	
At 1 January 2017	333,937
Amortisation effect of borrowing costs	16,647
Unrealised gain on foreign exchange	(2,725)
Interest paid	(13,752)
At 31 December 2017	334,107

Notes to statements of cash flows:

(i) Non-cash transactions

In prior year, the Company increased its investment in a 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 RM93,608,000 (2016: RM108,834,000). Property, plant and equipment of RM6,548,000 (2016: RM10,934,000) was acquired by means of hire purchase and RM57,549,000 (2016: RM73,265,000) was self-constructed assets.

Notes to statements of cash flows: (continued)

(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	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash and bank balances	13	214,108	416,479	365	218,038
Deposits with licensed banks and financial institutions	13	21,530	2,704	–	–
Less: Pledged deposits	13	(21,530)	(2,554)	–	–
		214,108	416,629	365	218,038
Less: Bank overdrafts	15	(18,523)	(4,910)	–	–
		195,585	411,719	365	218,038

The notes on pages 61 to 148 are an integral part of these 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 2017 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 2017 do not include other entities.

The Company is principally engaged in investment holding activities and the 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 28 April 2018.

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 2016 in Malaysia.

The following are accounting standards, interpretations and amendments 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 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*

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*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

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

- MFRS 17, *Insurance Contracts*

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

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

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

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

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

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

The Group has established a team to manage the implementation of MFRS 15. For respective group entities, the team reviewed contracts with customers to account for the financial impact of the adoption of the new standard. The team is also responsible to set up a group policy on implementation and to design approaches to account into the Group's financial reporting process.

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

(i) <u>Separate performance obligations ("PO")</u>

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

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

(ii) Timing of revenue recognition

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

The Group has assessed the estimated impact that the initial application of MFRS 15 will have on its consolidated financial statements for year ended 31 December 2017 and the beginning of the earliest period presented 1 January 2017 as below. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change because the new accounting policy is subject to change until the Group presents its first financial statements that include the date of initial application.

	Statement of financial position as at 31 December 2017		Statement of financial position as at 1 January 2017	
Group	**As currently reported RM'000**	**Expected restatement RM'000**	**As currently reported RM'000**	**Expected restatement RM'000**
Deferred tax assets	344,243	346,977	347,858	349,205
Inventories	100,870	162,160	73,732	128,269
Amount due from contract customers	387,123	344,948	404,013	354,428
Deferred income	(114,571)	(105,778)	(120,383)	(118,268)
Retained earnings	(638,245)	(595,004)	(681,252)	(652,308)

	Statement of profit or loss and other comprehensive income for the year ended 31 December 2017	
Group	**As currently reported RM'000**	**Expected restatement RM'000**
Revenue	1,389,654	1,350,545
Cost of sales	(1,168,156)	(1,148,500)
Tax expense	(16,686)	(11,529)
Loss for the year	(45,204)	(59,501)
Earnings per share (sen)		
- basic	(2.00)	(2.76)
- diluted	(2.00)	(2.76)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

(ii) MFRS 9, *Financial Instruments*

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

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

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

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

The Group does not expect that the application of the forward-looking expected credit loss (ECL) model will have a material impact on accounting for its financial assets. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change because the new accounting policy is subject to change until the Group presents its first financial statements that include the date of initial application.

(iii) MFRS 16, *Leases*

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

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

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

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

(b) Basis of measurement

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

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 fair value less costs of disposal and value in use calculations respectively for the Germany and Thailand units. 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.

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 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. Judgement 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 Group'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.

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 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.

(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.

(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.

2. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(a) **Basis of consolidation (continued)**

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

(c) Available-for-sale financial assets (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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 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 expired. 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 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.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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.

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(i) Finance lease (continued)

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.

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

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

(f) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

(iii) Subsequent expenditure

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (continued)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 or the Company 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 plans

The Group or the Company'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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) 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.

(v) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

(v) Share-based payment transactions (continued)

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.

(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 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) Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Revenue and other income (continued)

(iv) Management fee

Management fee is recognised on an accrual basis.

(v) 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.

(vi) 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Contingencies (continued)

(i) Contingent liabilities (continued)

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.

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 2016		334,199	391,596	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/ 1 January 2017		321,492	373,133	11,308	634,020	17,686	122,620	540,295	2,020,554
Additions		567	4,848	219	9,554	2,044	7,370	69,006	93,608
Disposals		(6,076)	–	(349)	(1,970)	(872)	(485)	–	(9,752)
Reclassification		–	303,947	–	23,555	–	–	(327,502)	–
Write offs		–	–	–	–	–	(8)	(1,065)	(1,073)
Effect of movements in exchange rates		2,615	(14,854)	(147)	(21,791)	(563)	(1,530)	(13,078)	(49,348)
At 31 December 2017		318,598	667,074	11,031	643,368	18,295	127,967	267,656	2,053,989

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 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	3.6	–	11,347	–	–	–	–	–	11,347
Effect of movements in exchange rates		(6)	38	152	9,033	359	8,317	–	17,893
At 31 December 2016/ 1 January 2017									
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
Depreciation for the year		292	21,090	966	39,285	1,541	7,534	–	70,708
Disposals		–	–	–	(1,953)	(303)	(303)	–	(2,559)
Write offs		–	–	–	–	–	(8)	–	(8)
Effect of movements in exchange rates		55	(3,278)	(43)	(18,854)	(399)	(1,127)	–	(23,646)
At 31 December 2017									
Accumulated depreciation		1,173	48,909	2,281	473,991	13,217	103,003	–	642,574
Accumulated impairment loss		4,353	11,347	–	1,958	–	–	–	17,658
		5,526	60,256	2,281	475,949	13,217	103,003	–	660,232
Carrying amounts									
At 1 January 2016		329,300	373,576	4,781	196,911	2,960	25,303	116,781	1,049,612
At 31 December 2016/ 1 January 2017		316,313	330,689	9,950	176,549	5,308	25,713	540,295	1,404,817
At 31 December 2017		313,072	606,818	8,750	167,419	5,078	24,964	267,656	1,393,757

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.1 Depreciation charge for the year is allocated as follows:

		Group	
	Note	2017 RM'000	2016 RM'000
Construction work-in-progress	11.1	62,825	54,895
Profit or loss	21	7,883	6,857
		70,708	61,752

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	
	2017 RM'000	2016 RM'000
Freehold land	156,069	156,486
Leasehold land	6,146	6,264
Buildings	646,118	367,816
	808,333	530,566

3.3 Security

Certain freehold land, leasehold land and buildings of the Group costing/valued at RM468,991,000 (2016: RM316,252,000) in subsidiaries are charged to certain financial institutions as security for credit facilities granted to the subsidiaries (Note 15).

3.4 Assets acquired under finance lease

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

	Group	
	2017 RM'000	2016 RM'000
Freehold land	5,489	5,342
Building	11,097	11,526
Plant and machineries	41,190	40,561
Motor vehicles	1,615	3,491
	59,391	60,920

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.5 Capital work-in-progress

Included in carrying amounts of capital work-in-progress are costs of self-constructed assets of RM202,991,000 (2016: RM484,114,000).

3.6 Impairment

In prior year, an impairment loss of RM11,347,000 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 reversal 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 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 2016/1 January 2017		897,296	864,249	1,761,545
Additions		–	491	491
Effect of movements in exchange rates		23,806	23,832	47,638
At 31 December 2017		921,102	888,572	1,809,674
Amortisation and impairment loss				
At 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 2016/1 January 2017				
Accumulated amortisation		–	(352,178)	(352,178)
Accumulated impairment loss		(2,794)	–	(2,794)
		(2,794)	(352,178)	(354,972)
Amortisation for the year		–	(30,167)	(30,167)
Effect of movements in exchange rates		–	(9,725)	(9,725)
At 31 December 2017				
Accumulated amortisation		–	(392,070)	(394,864)
Accumulated impairment loss		–	–	–
		(2,794)	(392,070)	(394,864)

4. INTANGIBLE ASSETS (CONTINUED)

Group	Note	Goodwill RM'000	Other intangible assets RM'000	Total RM'000
Carrying amounts				
At 1 January 2016		857,340	539,609	1,396,949
At 31 December 2016/1 January 2017		894,502	512,071	1,406,573
At 31 December 2017		918,308	496,502	1,414,810
		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. The intangible assets with finite useful lives are amortised over their useful lives ranging from 1 to 20 years while those with infinite useful lives are tested for impairment annually or shorter if there is an indication of impairment.

4.3 Amortisation and impairment charge

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

4.4 Impairment 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 2017 RM'000	2016 RM'000
Germany unit	887,138	863,332
Thailand unit	31,170	31,170
	918,308	894,502

4. INTANGIBLE ASSETS (CONTINUED)

4.4 Impairment testing for cash-generating units containing goodwill (continued)

Germany unit

The recoverable amounts of the cash-generating units ("CGU") 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 detailed planning period and a five-year gross planning period. The estimated EBITDA margin used for the five-year period is 14% (2016: 17%).

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 EBITDA margin 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 7.93% (2016: 8.24%).

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 estimates are particulary sensitive in the following areas:-

- An increase of 1.36% (2016: 1.36%) in the discount rate used would result in an impairment loss of RM121.9 million (2016: RM100.9 million).

- A decrease of 2.00% (2016: 2.00%) in the EBITDA margin used would result in an impairment loss of RM28.6 million (2016: Nil).

Thailand unit

For purpose of impairment testing, the CGU identified at the lowest level within the Group is the bio-ethanol division/plant in Thailand. The recoverable amount was based on value in use calculations, determined by discounting future cash flows to be generated from the continuing use of the plant based on financial budgets approved by the Board.

The key assumptions used in the preparation of cash flows projection include:

(i) The forecasted sales are based on secured orders for sale of bio-ethanol.

(ii) Projected gross margin reflects average historical gross margin adjusted for industry and economic conditions and internal source efficiency.

(iii) The pre-tax discount rate used is 8.91%; and the terminal growth rate is 2.60%.

The estimated recoverable amount of the plant exceeded the CGU's carrying amount. The Directors have not identified any key assumptions that are particularly sensitive and could cause the carrying amounts to exceed the recoverable amount as a result of any adverse change in the key assumptions.

5. INTERESTS IN SUBSIDIARIES

	Company 2017 RM'000	Company 2016 RM'000
Unquoted shares - at cost	1,658,891	1,660,191
Less: Impairment loss	–	(100)
Amount due from subsidiaries	395,723	148,531
	2,054,614	1,808,622

The amount due from subsidiaries relates to advances which are unsecured, non-repayable and interest free except for RM329,873,000 (2016: Nil) due from a subsidiary which is subject to interest at rate of 6.25% (2016: Nil) per annum. 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 2017 RM'000	Group 2016 RM'000
Unquoted shares - at cost	40	40
Share of post-acquisition reserve	(19)	(18)
	21	22

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 2017 %	Effective ownership interest and voting interest 2016 %
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	49

** Audited by another firm of accountants.
^ Equity-accounted using management accounts as at 31 December 2017.

7. INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares - at cost	5,540	5,044	40	40
Share of post acquisition reserve	1,221	(2,442)	–	–
Additions	–	400	–	–
Effect of movements in exchange rates	(1,282)	96	–	–
	5,479	3,098	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 2017 %	2016 %
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	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.

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 that 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	
	2017 RM'000	**2016 RM'000**
As at 31 December		
Group's share of net assets/Carrying amount in the statement of financial position	5,479	3,098
Group's share of results for the year ended 31 December		
Group's share of profit for the year	2,301	1,140
Group's share of other comprehensive income	1,362	107
Group's share of total comprehensive income	3,663	1,247
Contingent liability		
Share of joint ventures' contingent liability incurred jointly with other investor:		
- Secured guaranteed bank facilities and unsecured performance obligation of joint ventures	62,115	67,339

8. OTHER INVESTMENTS

Group	Unquoted Shares RM'000	Club Member-ship RM'000	Total RM'000
2017			
Non-current			
Available-for-sale financial asset	7,320	70	7,390
Less: Impairment loss	(1,913)	(10)	(1,923)
	5,407	60	5,467
2016			
Non-current			
Available-for-sale financial asset	2,327	70	2,397
Less: Impairment loss	(1,862)	(10)	(1,872)
	465	60	525

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.

9. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets 2017 RM'000	Assets 2016 RM'000	Liabilities 2017 RM'000	Liabilities 2016 RM'000	Net 2017 RM'000	Net 2016 RM'000
Property, plant and equipment	4,556	4,133	(21,369)	(21,189)	(16,813)	(17,056)
Revaluation*	13,798	13,428	(213,107)	(214,484)	(199,309)	(201,056)
Provisions	9,241	8,024	–	–	9,241	8,024
Other items	17,270	21,882	(4,168)	(725)	13,102	21,157
Tax loss carry-forward and unutilised capital allowances	345,735	345,735	–	–	345,735	345,735
Tax assets/(liabilities)	390,600	393,202	(238,644)	(236,398)	151,956	156,804
Set off of tax	(46,357)	(45,344)	46,357	45,344	–	–
Net tax assets/(liabilities)	344,243	347,858	(192,287)	(191,054)	151,956	156,804

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

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

Key sources of estimation uncertainty

The carrying value of deferred tax assets of the Group at 31 December 2017 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 Group's statement 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	
	2017	**2016**
	RM'000	**RM'000**
Tax loss carry-forward	222,611	159,715
Unutilised capital allowances	42,642	33,115
Other deductible temporary differences	(20,849)	(24,151)
	244,404	168,679

The above items do not expire under current tax legislation except for tax loss carry-forward of RM1,000 (2016: RM6,000) which will expire should there be a substantial change in shareholders (more than 50%).

Included in prior year's tax loss carry-forward was an amount of RM5,279,000 that has expired during the financial year under the legislation of that country.

Deferred tax assets have not been recognised in respect of the tax loss carry-forward 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.

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

Movement in temporary differences during the year

Group	At 1.1.2016 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/ 1.1.2017 RM'000	Recognised in profit or loss (Note 22) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2017 RM'000
Property, plant and equipment	(17,399)	–	(343)	686	(17,056)	321	(78)	(16,813)
Revaluation*	(229,291)	1,904	16,035	10,296	(201,056)	6,934	(5,187)	(199,309)
Provisions	9,222	–	1,198	(2,396)	8,024	915	302	9,241
Other items	18,477	–	(2,680)	5,360	21,157	(8,094)	39	13,102
Tax loss carry-forward and unutilised capital allowance	345,824	–	89	(178)	345,735	–	–	345,735
	126,833	1,904	14,299	13,768	156,804	76	(4,924)	151,956

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

10. INVENTORIES

	Group 2017 RM'000	2016 RM'000
At cost:		
Raw materials	15,582	14,094
Tools and consumables	44,435	36,066
Work-in-progress	2,710	2,612
Finished goods	15,700	–
	78,427	52,772
At net realisable value:		
Raw materials	20,613	20,040
Tools and consumables	1,830	920
	100,870	73,732

11. TRADE AND OTHER RECEIVABLES

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Trade					
Trade receivables		353,798	439,138	–	–
Amounts due from					
- contract customers	11.1	387,123	404,013	–	–
- subsidiaries	11.2	–	–	9,908	8,625
- joint ventures	11.2	18,676	14,467	–	–
		759,597	857,618	9,908	8,625
Non-trade					
Amounts due from					
- subsidiaries	11.2	–	–	203,845	189,379
- associates	11.2	–	1	–	–
- joint ventures	11.2	7,678	8,549	4,102	4,101
Other receivables	11.3	38,505	48,497	135	640
Deposits	11.4	5,310	5,499	3	3
Prepayments	11.5	37,820	49,786	1,500	2,332
		89,313	112,332	209,585	196,455
		848,910	969,950	219,493	205,080

11.1 Construction work-in-progress

	Note	Group 2017 RM'000	Group 2016 RM'000
Aggregate costs incurred to date		6,708,178	7,160,177
Add: Net attributable profits		1,445,884	1,615,745
Less: Foreseeable losses		–	(289)
		8,154,062	8,775,633
Less: Progress billings		(7,881,510)	(8,492,003)
		272,552	283,630
Represented by:			
Amounts due from contract customers		387,123	404,013
Amounts due to contract customers	18	(114,571)	(120,383)
		272,552	283,630

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

11.1 Construction work-in-progress (continued)

Additions to aggregate costs incurred during the year include:

	Note	Group 2017 RM'000	Group 2016 RM'000
Depreciation of property, plant and equipment	3.1	62,825	54,895
Hire of plant and machineries		8,131	10,429
Staff costs		277,101	325,043

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 due from subsidiaries which were subject to interest of 6.25% per annum in prior year.

The amounts due from joint ventures and associates are unsecured, interest free and repayable on demand except for RM9,757,000 (2016: RM5,979,000) due from joint ventures which are subject to interest of 1.43% (2016: 1.52%) per annum.

In prior year, an amount due from a subsidiary of RM7,000,000 was capitalised as interest in subsidiary via subscription of ordinary shares in the subsidiary.

11.3 Other receivables

Included in other receivables of the Group and of the Company are Goods and Services Tax ("GST") and Value Added Tax ("VAT") receivable amounting to RM16,812,000 (2016: RM15,650,000) and RM55,000 (2016: RM242,000) respectively.

11.4 Deposits

Included in deposits of the Group are rental deposit for a building of RM165,000 (2016: 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 RM21,680,000 (2016: RM39,068,000).

12. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

	2017			2016		
	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")	25,786	678	(3,514)	135,760	1,930	(9,576)
Derivatives used for hedging	1,520,285	1,564	–	49,939	9	(2,356)
	1,546,071	2,242	(3,514)	185,699	1,939	(11,932)

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and bank balances	214,108	416,479	365	218,038
Deposits with licensed banks	21,530	2,704	–	–
	235,638	419,183	365	218,038

Included in the deposits placed with licensed banks of the Group is RM21,530,000 (2016: RM2,554,000) pledged for bank facilities.

14. CAPITAL AND RESERVES

14.1 Share capital

	Group and Company			
	Number of shares 2017 '000	Amount 2017 RM'000	Number of shares 2016 '000	Amount 2016 RM'000
Issued and fully paid shares:				
At 1 January	2,156,133	1,005,617	2,156,133	1,005,617
Issued for cash				
- Warrant A (Note c)	23	23	–	–
- Private placement (Note d)	213,281	49,921	–	–
Expiration of warrant A	–	44,981	–	–
Transfer from share premium in accordance with section 618(2) of Companies Act 2016 (Note e)	–	782,971	–	–
At 31 December	2,369,437	1,883,513	2,156,133	1,005,617

(a) Under the Companies Act 2016 in Malaysia, which commenced operation on 31 January 2017 (except Section 241 and Division 8 of Part III), the concept of authorised share capital no longer exists.

(b) In accordance with Section 74 of the Companies Act 2016 in Malaysia, the Company's shares no longer have a par or nominal value with effect from 31 January 2017. There is no impact on the number of shares in use or the relative entitlement of any of the members as a result of this transition.

(c) During the financial year, the Company issued 23,213 new ordinary shares for a total cash consideration of RM22,748 arising from the exercise of Warrant A at an exercise price of RM0.98 per ordinary share.

(d) During the financial year, the Company issued 213,281,400 new ordinary shares via a private placement to eligible investors for a total cash consideration of RM51,187,536 including transaction costs of RM1,266,528.

(e) In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital account. Included in the Company's share capital is share premium amounting to RM782,971,000 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of section 74 of Companies Act 2016).

14. CAPITAL AND RESERVES (CONTINUED)

14.2 Treasury shares

On 15 June 2017, the shareholders of the Company renewed the Company's plan to repurchase its own shares.

During the financial year, the Company purchased 10,000 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 RM0.28 per share. The total consideration paid was RM2,846 including transaction costs of RM44. 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 2017, the Company held 23,341,275 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 2017 is 2,346,095,980 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 capital. When the share options expire, the amount from the share option reserve is transferred to retained earnings. Share option is disclosed in Note 16.

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 23,213 new shares issued pursuant to the exercise of Warrant A at an issue price of RM0.98 during the financial year. The remaining 517,652,416 Warrant A have since expired on 15 November 2017 and the corresponding warrant reserve transferred to share capital. At the end of the reporting period, the unexercised warrants comprise 161,578,504 Warrant B which will expire on 21 April 2020 (2016: 517,675,629 Warrant A and 161,578,504 Warrant B).

15. LOANS AND BORROWINGS

		Note	Group 2017 RM'000	Group 2016 RM'000
Non-current				
Floating rate term loans	- secured		89,612	48,780
	- unsecured		–	46,363
Fixed rate term loans	- secured		21,988	–
	- unsecured		–	35,888
Fixed rate guaranteed Thai Baht bonds		15.7	334,107	333,937
Revolving credit	- secured		149,186	206,907
	- unsecured		87,880	146,434
Floating rate finance lease liabilities			161	1,823
Fixed rate finance lease liabilities			18,977	19,563
			701,911	839,695
Current				
Bank overdrafts	- unsecured		18,523	4,910
Bills payable	- secured		14,027	26,362
	- unsecured		144,724	156,012
Floating rate term loans	- secured		13,456	51,224
	- unsecured		74,541	61,413
Fixed rate term loans	- secured		26,380	12,914
	- unsecured		32,376	–
Revolving credit	- secured		34,444	25,188
	- unsecured		121,359	135,391
Floating rate finance lease liabilities			1,712	4,470
Fixed rate finance lease liabilities			5,513	3,820
			487,055	481,704
			1,188,966	1,321,399

		Company 2017 RM'000	Company 2016 RM'000
Non-current			
Fixed rate guaranteed Thai Baht bonds	15.7	334,107	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 2017:

a. Minimum consolidated total networth of RM1.5 billion (2016: RM1.5 billion).

b. The Group's consolidated debt to equity shall not be more than 1.00 time (2016: 1.00 time) at all times.

c. The Group's consolidated secured debt to consolidated total assets shall not be more than 0.4 times (2016: 0.4 times).

d. The Group's consolidated EBITDA over interest expense shall not be less than 2.0 times (2016: 2.0 times).

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

f. Not to dispose of 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 (2016: 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 2017 shall exceed a ratio of 4.50 times (2016: 4.50 times).

b. Maintenance of leverage ratio of not more than 2.0 times (2016: 2.0 times) for the financial year ended 31 December 2017.

c. Working Capital Cover ratio for periods ending on or after 31 March 2017 shall be equal to or more than 120% (2016: 120%).

d. Minimum Equity for the financial year ended 31 December 2017 shall not be less than 30.0% (2016: 30.0%).

15. LOANS AND BORROWINGS (CONTINUED)

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.

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 (2016: 1.25 times).

(ii) The Group's consolidated debt to equity shall not be more than 1.50 times at all times (2016: 1.00 time).

15.6 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2017 RM'000	Interest 2017 RM'000	Present value of minimum lease payments 2017 RM'000	Future minimum lease payments 2016 RM'000	Interest 2016 RM'000	Present value of minimum lease payments 2016 RM'000
Less than one year	8,235	(1,010)	7,225	9,441	(1,151)	8,290
Between one and five years	14,372	(1,875)	12,497	15,432	(2,174)	13,258
More than five years	7,283	(642)	6,641	9,038	(910)	8,128
	29,890	(3,527)	26,363	33,911	(4,235)	29,676

The finance lease liabilities are subject to interest at rate ranging from 1.79% to 6.58% (2016: 1.79% to 6.30%) per annum.

15.7 These bonds are guaranteed by a 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 the 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 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
Options granted on 25.7.2017	20,428	Employee in service on grant date	5 years
	94,628		

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

	2017		2016	
	Exercise price	Number of options '000	Exercise price	Number of options '000
Outstanding at 1 January	RM0.65	67,417	RM0.65	49,467
Granted during the year	RM0.65	20,428	RM0.65	22,398
Lapsed during the year	RM0.65	(5,217)	RM0.65	(4,448)
Outstanding at 31 December	RM0.65	82,628	RM0.65	67,417
Exercisable at 31 December	RM0.65	82,628	RM0.65	67,417

The options outstanding at 31 December 2017 have an exercise price of RM0.65 and a weighted average contractual life of 5 years.

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	**2017**	**2016**
Fair value at grant date	RM0.004	RM0.04
Weighted average share price	RM0.22	RM0.33
Share price at grant date	RM0.24	RM0.41
Expected volatility	38.41%	43.35%
Option life	4.4 years	5.6 years
Expected dividends	3.09%	3.09%
Risk-free interest rate	3.56%	3.90%

Value of employee services received for issue of share options

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Total expense recognised as share-based payments	78	695	44	314

The total expense for the year is not fully recognised in the profit or loss of the Company as RM34,000 (2016: RM381,000) has been re-charged to the respective subsidiaries whose employees are eligible for the ESOS.

17. LONG TERM PAYABLES

		Group		Company	
	Note	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Social security institutions	17.1	8,976	9,946	–	–
Other long term payables	17.2	–	643	–	643
		8,976	10,589	–	643

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 In prior year, the other long term payables were advances from a company in which certain Directors have substantial financial interest and were unsecured, interest free and not repayable within the next twelve months. At reporting date, the amount is classified as current as the amount is expected to be settled within the next twelve months.

18. DEFERRED INCOME

	Note	Group 2017 RM'000	2016 RM'000
Amounts due to contract customers	11.1	114,571	120,383

19. TRADE AND OTHER PAYABLES

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Trade					
Trade payables		268,914	381,796	–	–
Non-trade					
Amounts due to					
- subsidiaries	19.1	–	–	–	711
- associates	19.1	1,483	1,526	–	–
- joint ventures	19.1	53	7	–	–
- related parties	19.1	12,328	26,321	298	–
Other payables	19.2	49,604	72,661	2,970	11,053
Accrued expenses		104,623	105,752	1,258	1,421
		168,091	206,267	4,526	13,185
		437,005	588,063	4,526	13,185

19.1 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.

19.2 Including in other payables of the Group are Goods and Services Tax ("GST") and Value Added Tax ("VAT") payable amounting to RM4,039,000 (2016: RM3,546,000).

20. REVENUE

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Construction contracts	1,351,462	1,646,782	–	–
Sales of goods	37,561	–	–	–
Management fees	–	–	3,692	5,702
Services	631	–	–	–
	1,389,654	1,646,782	3,692	5,702

21. RESULTS FROM OPERATING ACTIVITIES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Results from operating activities is arrived at after charging:				
Auditors' remuneration:				
- Audit fees:				
KPMG in Malaysia:				
- Current year	620	669	180	180
- Prior year	29	243	26	148
Overseas affiliates of KPMG in Malaysia	2,040	2,043	–	–
Other auditors	339	160	–	–
- Non-audit fees:				
KPMG Malaysia	10	18	10	18
Local affiliates of KPMG in Malaysia	125	218	9	9
Overseas affiliates of KPMG in Malaysia	348	823	–	–
Other auditors	36	10	–	–
Depreciation of property, plant and equipment (Note 3.1)	7,883	6,857	–	–
Amortisation of intangible assets	30,167	32,491	–	–
Bad debts written off	1,338	7,431	–	–
Impairment loss:				
- Other receivables	–	2,756	–	–
- Property, plant and equipment	–	11,347	–	–
- Trade receivables	13,317	24,304	–	–
Investment in subsidiaries written off	–	–	1,200	–
Net loss on foreign exchange:				
- Unrealised	–	–	5,598	–
- Realised	–	12,129	–	–
Personnel expenses:				
- Contribution to Employees' Provident Fund	9,953	9,195	–	–
- Share-based payments	78	695	44	314
- Wages, salaries and others	100,217	143,473	–	10
Provision for foreseeable losses	–	279	–	–
Provision for late delivery charges	104	447	–	–
Provision for warranty	2,410	18,273	–	–
Property, plant and equipment written off	1,065	1,185	–	–

21. RESULTS FROM OPERATING ACTIVITIES (CONTINUED)

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
and after crediting:				
Gain on disposal of:				
- Property, plant and equipment	24	199	–	–
Net gain on foreign exchange:				
- Realised	7,130	–	5,426	2
- Unrealised	19,368	2,353	–	128
Gain on fair value of forward contracts	5,621	9,608	–	–
Reversal of impairment loss:				
- Trade receivables	4,965	–	–	–
- Other receivables	2,172	–	–	–

22. TAX EXPENSE

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Current tax expense				
- Current year	16,447	31,716	–	803
- Under/(Over) provision in prior year	315	(940)	4	(38)
	16,762	30,776	4	765
Deferred tax expense				
- Current year	(48)	(14,299)	–	–
- Over provision in prior year	(28)	–	–	–
	(76)	(14,299)	–	–
Total tax expense	16,686	16,477	4	765

22. TAX EXPENSE (CONTINUED)

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Reconciliation of tax expense				
(Loss)/Profit for the year	(45,204)	(333,124)	2,896	(1,417)
Total income tax expense	16,686	16,477	4	765
(Loss)/Profit before tax	(28,518)	(316,647)	2,900	(652)
Income tax using Malaysian tax rate of 24%	(6,844)	(75,995)	696	(157)
Effect of tax rates in foreign jurisdictions*	1,758	670	–	–
Non-deductible expenses	15,460	26,511	450	960
Tax exempt income	(13,388)	(6,657)	(1,292)	–
Effect of tax losses not recognised	21,428	73,934	146	–
Utilisation of previously unrecognised temporary differences	(1,988)	(1,489)	–	–
Others	(27)	443	–	–
	16,399	17,417	–	803
Under/(Over) provision in prior year				
- Current tax expense	315	(940)	4	(38)
- Deferred tax expense	(28)	–	–	–
	16,686	16,477	4	765

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

Tax recognised directly in equity

	Group 2017 RM'000	Group 2016 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 2017 was based on the loss attributable to owners of the Company of RM43,007,000 (2016: RM332,981,000) and the weighted average number of ordinary shares outstanding during the year of 2,152,083,000 (2016: 2,132,815,000).

	2017 '000	2016 '000
Issued ordinary shares at beginning of the year	2,156,133	2,156,133
Issuance of shares	19,287	–
Effect of treasury shares held	(23,337)	(23,318)
Weighted average number of ordinary shares	2,152,083	2,132,815

	2017 Sen	2016 Sen
Basic earnings per ordinary share	(2.00)	(15.61)

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 2016 and 2017 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.

25. CONTINGENT LIABILITIES

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Contingent liabilities				
Guarantees and contingencies relating to borrowings and performance obligation of subsidiaries				
- Secured	30,300	31,301	325,095	354,306
- Unsecured	676,710	1,255,687	627,765	1,189,037
	707,010	1,286,988	952,860	1,543,343
Share of joint ventures' contingent liabilities incurred jointly with other investor:				
- Secured guaranteed bank facilities and unsecured performance obligation of joint ventures	62,115	67,339	48,159	53,383

26. COMMITMENTS

	Group 2017 RM'000	Group 2016 RM'000
Capital commitments:		
Property, plant and equipment		
- Contracted but not provided for in the financial statements	2,945	8,662

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, Ir 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, Ir Lee Swee Eng and Gan Siew Liat have substantial financial interest.

(vii) Nasser Hazza, 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 Ir 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	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
A.	**Subsidiaries**				
	Management fees received	–	–	(3,692)	(5,702)
	Loan interest received	–	–	(22,031)	(5,777)
	ESOS charged	–	–	(381)	(3,258)
	Treasury management fees	–	–	–	60
B.	**Related parties**				
	Inter Merger Sdn. Bhd.				
	Rental of premises	1,209	1,209	–	–
	Administrative charges	334	456	–	–
	IM Bina Sdn. Bhd.				
	Contract billing payable	26,723	18,194	–	–
	Tofield Realty Development Corporation				
	General mechanical and engineering	–	335	–	–

27. RELATED PARTIES (CONTINUED)

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
C. Key management personnel				
Directors				
- Fees	1,050	1,050	1,050	1,050
- Remuneration	4,598	4,556	3,792	3,750
- Employee benefits (including estimated monetary value of benefit-in-kind)	49	28	–	24
- Share-based payments	44	357	44	357
	5,741	5,991	4,886	5,181
Subsidiaries directors				
- Short-term employee benefits	10,441	10,322	–	–
- Share-based payments	11	101	–	–
	10,452	10,423	–	–
Other key management personnel				
- Short-term employee benefits	3,323	4,233	–	–
- Share-based payments	6	86	–	–
	3,329	4,319	–	–
	19,522	20,733	4,886	5,181

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.

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
2017					
Financial assets					
Group					
Other investments	5,467	–	–	5,467	–
Trade and other receivables	794,278	794,278	–	–	–
Derivative financial assets	2,242	–	678	–	1,564
Cash and bank balances	235,638	235,638	–	–	–
	1,037,625	1,029,916	678	5,467	1,564
Company					
Trade and other receivables	217,938	217,938	–	–	–
Cash and bank balances	365	365	–	–	–
	218,303	218,303	–	–	–

	Carrying amount RM'000	FL RM'000	FVTPL -HFT RM'000
Financial liabilities			
Group			
Loans and borrowings	(1,188,966)	(1,188,966)	–
Trade and other payables	(449,516)	(449,516)	–
Derivative financial liabilities	(3,514)	–	(3,514)
	(1,641,996)	(1,638,482)	(3,514)
Company			
Loans and borrowings	(334,107)	(334,107)	–
Trade and other payables	(4,526)	(4,526)	–
	(338,633)	(338,633)	–

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
2016					
Financial assets					
Group					
Other investments	525	–	–	525	–
Trade and other receivables	904,514	904,514	–	–	–
Derivative financial assets	1,939	–	1,930	–	9
Cash and bank balances	419,183	419,183	–	–	–
	1,326,161	1,323,697	1,930	525	9
Company					
Trade and other receivables	202,506	202,506	–	–	–
Cash and bank balances	218,038	218,038	–	–	–
	420,544	420,544	–	–	–

	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	(602,203)	(602,203)	–	–
Derivative financial liabilities	(11,932)	–	(9,576)	(2,356)
	(1,935,534)	(1,923,602)	(9,576)	(2,356)
Company				
Loans and borrowings	(333,937)	(333,937)	–	–
Trade and other payables	(13,828)	(13,828)	–	–
	(347,765)	(347,765)	–	–

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.2 Net gains and losses arising from financial instruments

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Net gains/(losses) arising on:				
Fair value through profit or loss:				
- Held for trading	5,621	9,608	–	–
Loans and receivables	(4,568)	(62,099)	15,707	5,907
Financial liabilities measured at amortised cost	(26,296)	(43,457)	(10,497)	(5,841)
	(25,243)	(95,948)	5,210	66

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 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 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.

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 (2016: 14) 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) (2016: 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 RM4,759,000 (2016: RM2,656,000) in respect of RM353,798,000 (2016: RM439,138,000) 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 2017 RM'000	2016 RM'000
Group		
Financial assets		
Trade receivables	353,798	439,138
Amounts due from contract customers	387,123	404,013
Amounts due from related parties, associates and joint ventures	26,354	23,017
Other receivables and deposits	27,003	38,346
Other investments	5,467	525
Derivative financial assets	2,242	1,939
Deposits with licensed banks	21,530	2,704
Cash and bank balances	214,108	416,479
	1,037,625	1,326,161
Company		
Financial assets		
Amounts due from subsidiaries	213,753	198,004
Amounts due from related parties, associates and joint ventures	4,102	4,101
Other receivables and deposits	83	401
Cash and bank balances	365	218,038
	218,303	420,544

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.

	2017 RM'000	%	2016 RM'000	%
Asia and Oceania	242,492	33	251,089	30
Europe	486,371	65	550,766	65
America	12,058	2	41,296	5
	740,921	100	843,151	100

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 loss

The aging of trade receivables as at the end of the reporting period was:

Group	Gross RM'000	Impairment RM'000	Net RM'000
2017			
Not past due	210,449	–	210,449
Past due 0 - 30 days	33,574	–	33,574
Past due 31 - 60 days	21,295	–	21,295
Past due 61 - 120 days	21,529	(704)	20,825
Past due more than 120 days	113,708	(46,053)	67,655
	400,555	(46,757)	353,798
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

The allowance account in respect of trade receivables is used to record impairment loss 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 loss (continued)

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

	Group	
	2017	**2016**
	RM'000	**RM'000**
At 1 January	45,428	17,955
Impairment loss recognised	13,317	24,304
Impairment loss reversed	(4,965)	-
Impairment loss written off	(3,734)	(42)
Effect on the movement of exchange rate	(3,289)	3,211
At 31 December	46,757	45,428

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

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Liquidity risk (continued)

Maturity analysis

The table below set out the contractual maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on undiscounted contractual payment – which would be met with a combination of matching maturity financial assets, operational cash inflows, and roll-over of current liabilities such as trade facilities.

Group 2017	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
Non-derivative financial liabilities							
Term loans - secured							
- EUR	31,092	1.95% - 5.50%	31,720	4,925	3,652	7,038	16,105
- RM	73,480	5.46% - 7.30%	78,692	9,204	9,364	27,169	32,955
- CAD	21,985	5.45%	23,183	1,696	1,696	5,090	14,701
- RMB	24,879	18.00%	29,357	29,357	–	–	–
Term loans - unsecured							
- EUR	51,238	2.67% - 4.07%	52,255	52,255	–	–	–
- USD	55,679	4.29% - 12.00%	60,565	60,565	–	–	–
Guaranteed Thai Baht bonds							
- THB	334,107	3.00%	350,744	16,383	33,215	301,146	–
Revolving credit - secured							
- USD	183,630	4.50% - 4.75%	200,755	43,119	150,213	7,423	–
Revolving credit - unsecured							
- RM	39,000	4.05% - 4.39%	41,429	41,429	–	–	–
- USD	122,653	3.92% - 9.17%	130,432	39,347	91,085	–	–
- EUR	47,586	0.50% - 2.25%	48,657	48,657	–	–	–
Bills payable - secured							
- EUR	975	3.35%	1,007	1,007	–	–	–
- USD	10,523	3.00% - 3.75%	10,908	10,908	–	–	–
- RM	2,529	5.05% - 5.50%	2,668	2,668	–	–	–
Bills payable - unsecured							
- USD	8,175	0.50% - 5.02%	8,404	8,404	–	–	–
- RM	127,976	2.00% - 4.90%	134,225	134,225	–	–	–
- THB	6,224	6.25%	6,613	6,613	–	–	–
- JPY	2,349	0.51% - 2.25%	2,402	2,402	–	–	–
Hire purchase and lease creditors							
- EUR	17,903	2.02% - 6.30%	20,623	4,538	2,713	6,192	7,180
- RM	7,484	1.79% - 4.84%	8,226	3,052	2,562	2,509	103
- THB	976	6.58%	1,041	645	396	–	–
Bank overdraft - unsecured							
- RM	18,523	4.05% - 7.40%	19,451	19,451	–	–	–
Trade and other payables	449,516	–	449,516	432,966	16,550	–	–
Financial guarantee	–	–	582,044	582,044	–	–	–
	1,638,482		2,294,917	1,555,860	311,446	356,567	71,044

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 2017	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	–	119,566	119,566	–	–	–
- Inflow	(708)	(120,274)	(120,274)	–	–	–
	(708)	(708)	(708)	–	–	–
		2,294,209	1,555,152	311,446	356,567	71,044

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 2016	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
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 - unsecured							
- 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	602,203	–	602,203	584,517	17,686	–	–
Financial guarantee	–	–	1,198,263	1,198,263	–	–	–
	1,923,602		3,250,922	2,327,256	391,950	508,640	23,076

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 2016	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	–	–
		3,263,605	2,339,887	392,002	508,640	23,076

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

	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
Company							
2017							
Non-derivative financial liabilities							
Loans and borrowings	334,107	3.00%	350,744	16,383	33,215	301,146	–
Trade and other payables	4,526	–	4,526	4,526	–	–	–
Financial guarantee	–	–	972,111	972,111	–	–	–
	338,633		1,327,381	993,020	33,215	301,146	–
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	–	–	1,553,661	1,553,661	–	–	–
	347,765		1,920,610	1,583,526	34,391	302,693	–

Financial Guarantees

The Group and the Company provide guarantees relating to borrowings and performance obligation of subsidiaries and joint ventures of RM582,044,000 and RM972,111,000 respectively (2016: RM1,198,263,000 and RM1,553,661,000 respectively).

The Group and the Company monitor on an ongoing basis. At reporting date, there was no indication that any group entities would default on repayment and performance obligation. The financial guarantees have not been recognised since the fair value on initial recognition was not material.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Foreign currency risk

The Group operates in 17 (2016: 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, THB 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.

Policies and Processes

i) Transactional forward obligations or rights denominated in foreign currency.

Transactional FX risk arises mainly from contracted projects' future monetary obligation and rights denominated in currency other than the transaction originating currency. These highly probable future cash flows in foreign currency are first netted based on matching FX risk characteristics for natural hedge, with any net balance exposure being further hedge off with FX Forward Contracts. It is the Group's policy to attain best full hedge in transactional FX risk.

ii) Net investment in Foreign Operations.

The Group does consider matching foreign currency borrowing with the functional currency of its foreign operations in mitigating FX translation gain/loss that are recognised in a separate component of equity. However, this decision is driven by feasibility factors such as the ability to time the future cash flows, availability of foreign currency debt funding, and the foreign currencies' fiscal position and borrowing cost.

Where circumstances permit, FX hedges on the abovementioned would be designated for hedge accounting either as cash-flow hedges, fair value hedges, or net investment hedges.

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, THB and RM which is different from the reporting functional currency of the respective subsidiaries.

	Denominated in			
	USD RM'000	EUR RM'000	THB RM'000	RM RM'000
Group				
2017				
Trade receivables	91,799	14,531	–	18,799
Cash and bank balances	8,784	48,860	11	1,990
Trade payables	(7,075)	(2,041)	–	(1,146)
Other payables and accruals	(30)	(153)	(125)	(7,455)
Borrowings	(23,303)	–	(334,107)	(73,480)
Bank overdrafts	–	–	–	(13,215)
Revolving credit	–	–	–	(15,000)
Finance lease liabilities	–	–	–	(7,484)
Bills payable	(7,669)	(975)	–	(129,370)
Forward exchange contracts	(2,104)	(1,549)	–	–
Net exposure in the statement of financial position	60,402	58,673	(334,221)	(226,361)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Foreign currency risk (continued)

	Denominated in			
	USD RM'000	EUR RM'000	THB RM'000	RM RM'000
Group				
2016				
Trade receivables	113,611	15,907	–	108
Cash and bank balances	5,774	383	217,884	3,295
Trade payables	(10,959)	(2,326)	–	(36,582)
Other payables and accruals	(45)	(151)	–	(4,028)
Borrowings	–	–	(333,937)	(55,169)
Revolving credit	–	–	–	(19,420)
Finance lease liabilities	–	–	–	(5,659)
Bills payable	(19,099)	(3,506)	–	(80,256)
Forward exchange contracts	13,214	(498)	–	–
Net exposure in the statement of financial position	102,496	9,809	(116,053)	(197,711)

	THB RM'000
Company	
2017	
Cash and bank balances	11
Borrowings	(334,107)
Net exposure in the statement of financial position	(334,096)
2016	
Cash and bank balances	217,884
Borrowings	(333,937)
Net exposure in the statement of financial position	(116,053)

A 5 percent strengthening of Malaysian Ringgit against the US Dollar, Euro and THB 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group				
USD	(99,161)	(112,158)	(3,020)	(5,125)
EUR	(71,591)	(69,110)	(2,934)	(490)
THB	(3,604)	(3,712)	16,711	5,803
RM	–	–	11,318	9,886

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Foreign currency risk (continued)

	Profit or loss 2017 RM'000	2016 RM'000
Company		
THB	16,705	5,803

A 5 percent weakening of Malaysian Ringgit against the US Dollar, Euro and THB 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.

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 2017 RM'000	2016 RM'000	Company 2017 RM'000	2016 RM'000
Fixed rate instruments				
Financial assets	21,530	2,704	–	126,412
Financial liabilities	(439,341)	(406,122)	(334,107)	(333,937)
	(417,811)	(403,418)	(334,107)	(207,525)
Floating rate instruments				
Financial assets	9,757	5,979	–	–
Financial liabilities	(749,625)	(915,277)	–	–
	(739,868)	(909,298)	–	–

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.7 Interest rate risk (continued)

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.

(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
2017		
Floating rate instruments	(1,850)	1,850
2016		
Floating rate instruments	(2,273)	2,273

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
2017			
Proceeds from accounts receivables			
- inflow	1,681	80,693	80,693
- outflow	–	(79,012)	(79,012)
Proceeds from accounts payables			
- inflow	–	13,349	13,349
- outflow	(1,550)	(14,899)	(14,899)

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
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)

During the year, net gain of RM435,000 (2016: RM2,006,000) was recognised in other comprehensive income. An ineffective net gain of RM1,433,000 (2016: RM611,000) 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.

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.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
Group										
Financial assets										
Forward exchange contracts	–	2,242	–	2,242	–	–	–	–	2,242	2,242
Financial liabilities										
Forward exchange contracts	–	(3,514)	–	(3,514)	–	–	–	–	(3,514)	(3,514)
Fixed rate term loans	–	–	–	–	–	–	(80,744)	(80,744)	(80,744)	(80,744)
Fixed rate guaranteed Thai Baht bonds	–	–	–	–	–	–	(334,107)	(334,107)	(334,107)	(334,107)
Fixed rate finance lease liabilities	–	–	–	–	–	–	(24,545)	(24,545)	(24,545)	(24,490)
Long term payables	–	–	–	–	–	–	(8,976)	(8,976)	(8,976)	(8,976)
Long service leave liability	–	–	–	–	–	–	(7,574)	(7,574)	(7,574)	(7,574)
	–	(3,514)	–	(3,514)	–	–	(455,946)	(455,946)	(459,460)	(459,405)
Company										
Financial liabilities										
Fixed rate guaranteed Thai Baht bonds	–	–	–	–	–	–	(334,107)	(334,107)	(334,107)	(334,107)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.9 Fair value of financial instruments (continued)

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										
Forward exchange contracts	–	1,939	–	1,939	–	–	–	–	1,939	1,939
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)

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 (2016: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs (e.g. changes in market interest rates) for the financial assets and liabilities. The fair values were determined using discounted cash flows based on current market rate at reporting date.

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

	2017	2016
Group		
Fixed rate term loans	4.29% - 18.00%	5.66% - 12.00%
Fixed rate guaranteed Thai Baht bonds	3.00%	3.00%
Fixed rate finance lease liabilities	1.79% - 6.58%	1.79% - 6.30%
Company		
Fixed rate guaranteed Thai Baht bonds	3.00%	3.00%

Sensitivity analysis and inter-relationship between unobservable inputs and fair value measurement

The fair values would increase if the interest rates are higher. The Directors are of the view that the changes are not significant and hence the sensitivity analysis is not presented.

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 2017, the Group recorded a DER of 0.49 (2016: 0.55) as compared to the financial covenants of not exceeding 1.0 time (2016: 1.00 time). The Group is also required to maintain certain financial covenant ratios as disclosed in Note 15.

	Group	
	2017 **RM'000**	**2016** **RM'000**
Total loans and borrowings (Note 15)	1,188,966	1,321,399
Total equity	2,409,736	2,388,873
DER	0.49	0.55

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 and Oceania	Malaysia, Thailand, China, Singapore, Indonesia, Australia 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	201,472	403,147	1,179,717	1,159,309	8,465	84,326	1,389,654	1,646,782
Cost of sales	(188,459)	(574,162)	(963,869)	(944,538)	(15,828)	(121,613)	(1,168,156)	(1,640,313)
Gross profit/(loss)	13,013	(171,015)	215,848	214,771	(7,363)	(37,287)	221,498	6,469
Administration expenses and others	(33,389)	(69,969)	(165,515)	(202,574)	(6,083)	(9,423)	(204,987)	(281,966)
Operating (loss)/profit	(20,376)	(240,984)	50,333	12,197	(13,446)	(46,710)	16,511	(275,497)
Add: Depreciation and amortisation	29,158	20,959	67,112	68,898	4,605	4,386	100,875	94,243
Segment profit/(loss)	8,782	(220,025)	117,445	81,095	(8,841)	(42,324)	117,386	(181,254)
Share of profit of equity-accounted investees, net of tax							2,301	1,140
Less: Depreciation and amortisation							(100,875)	(94,243)
							18,812	(274,357)
Finance costs							(47,847)	(44,422)
Finance income							517	2,132
Loss before tax							(28,518)	(316,647)

Major customers

The Group does not have any customers where the group generates revenue equal to or more than 10% of the Group's total revenue.

	Asia and Oceania		Europe		America		Consolidated	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Segment assets	1,549,517	1,743,135	2,747,763	2,793,294	69,431	105,030	4,366,711	4,641,459
Segment liabilities	1,088,292	1,427,435	842,882	796,542	25,801	28,609	1,956,975	2,252,586
Capital expenditure	73,152	76,314	20,947	34,263	–	307	94,099	110,884
Depreciation and amortisation charged to profit or loss	6,415	5,526	31,052	33,239	583	583	38,050	39,348
Non-cash expenses other than depreciation and amortisation	3,210	26,919	15,051	37,909	–	–	18,261	64,828

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 2017 %	2016 %
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 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 2017 %	2016 %
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

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2017 %	2016 %
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
KNM Transparent Energy Sdn. Bhd. ^@	Dormant	Malaysia	100	–
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	51
Asia Bio-fuels Limited **@	Investment holding	Republic of Mauritius	100	100
Asia Biofuels II Ltd. **@	Investment holding	Republic of Mauritius	100	100
Subsidiaries of KNM International Sdn. Bhd.				
KNM Overseas (China) Sdn. Bhd. **@	Investment holding and provision of management and consultancy services	Malaysia	100	100

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2017 %	2016 %
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
KNM Engineering Services Private Limited ^$	Dormant	India	–	100

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2017 %	2016 %
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 2017 %	2016 %
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	72

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2017 %	2016 %
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

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2017 %	2016 %
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

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2017 %	2016 %
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

31. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 2017 %	2016 %
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 2017:

- * 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 2017.
- $ The Board of Directors approved the dissolution of inactive and/or dormant subsidiaries either by way of voluntary winding up or de-registering/striking off.

<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..

32. ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

In prior 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 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	28,690	–	28,690
Payables and accruals	(292,509)	–	(292,509)
Net identifiable assets and liabilities	71,501	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	
	2017 RM'000	2016 RM'000
Less than one year	501	556
More than one year	3,011	3,893
	3,512	4,449

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.

34. SIGNIFICANT EVENTS DURING THE YEAR

34.1 On 14 September 2017, the Company received a confirmation from the Ministry of Corporate Affairs in India that a subsidiary, KNM Engineering Services Private Limited, had been officially struck-off and dissolved on 29 June 2017.

34.2 KNM Process Systems Sdn. Bhd., a wholly-owned subsidiary of the Company, had on 19 October 2017 incorporated a wholly-owned subsidiary, KNM Transparent Energy Sdn. Bhd., for a total cash consideration of RM2.00.

34.3 On 15 November 2017, Bursa Malaysia Securities Berhad ("Bursa Securities") approved the Company's private placement application to issue up to 213,281,400 new ordinary shares and the Company had on 16 November 2017 fixed the issue price at RM0.24 per share.

The private placement exercise was fully subscribed and raised total cash consideration of RM51,187,536 including transaction cost of RM1,266,528.

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 50 to 148 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 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 2017 and of their financial performance and cash flows for the financial year then ended.

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: 28 April 2018

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 50 to 148 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 Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed Tan Koon Ping, at Kuala Lumpur in the Federal Territory on 28 April 2018.

……..…..…….…………………..…...
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 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, consolidated statement of changes in equity, statement 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 50 to 148.

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 2017, 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 2016 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.

Key Audit Matters

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

1. Valuation of Goodwill and Other Intangible Assets

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 RM918,308,000 and RM496,502,000 respectively as at 31 December 2017. 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 fair value less costs of disposal and value in use calculations respectively for the Germany and Thailand units. Both calculations are 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, EBITDA growth, discount rates and terminal growth rates applied to the respective cash flows, by comparing to historical results and competitors in the industry.

To assess the reasonableness of the recoverable amounts, 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 recoverable amounts.

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.

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 2017, mainly attributed from unutilised tax losses and unabsorbed capital allowances (tax incentives). 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 area that our audit is concentrated on.

How the matter was addressed in our audit

Our audit procedures included, inspecting incentives letter to ascertain conditions for tax incentives have been fulfilled, and 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 budgeted 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.

Key Audit Matters (continued)

3. **Construction Contracts Revenue, Construction Contracts Profits and Recoverability of Amount due from Contract Customers**

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. Judgement 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 area that our audit is 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 reasonableness of construction contracts revenue, construction contracts profits and recoverability of amount due from contract customers. 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 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. This includes inspection of amount of revenue agreed in signed contracts and approved variation orders.

The Group recognises construction contracts revenue based on percentage of completion. We have evaluated the reasonableness of percentage of completion by obtaining documentations to support the stage of completion of physical contract work performed, and evaluated against the requirements of MFRS 111, Construction Contracts.

We also visited sites and held discussion with site personnel to assess the reasonableness of the stage of completion of certain material projects.

In assessing reasonableness of construction contracts profits, 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.

In assessing recoverability of amount due from contract customers, for projects that appear to be behind schedule, we compared maximum damages exposure against provision made by the management and inspected subsequent billings and payments. We also 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 assessment.

Key Audit Matters (continued)

4. **Recoverability Assessment of Interests in Subsidiaries and Amounts due from Subsidiaries (Company level)**

Refer to *Note 2(c) – Financial instruments, Note 5 – Interests in subsidiaries* and *Note 11 – Trade and other receivables* to the financial statements.

As of 31 December 2017, the Company recorded total interests in subsidiaries and amounts due from subsidiaries of RM2,054,614,000 and RM213,753,000. We noted that several subsidiaries were either dormant since incorporation, or loss-making and have deficits in shareholders' funds at 31 December 2017, which led to indicators of potential impairment. Due to the substantial amounts with potential impairment concerns, we have identified this as one of the key judgemental area 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 recoverable amount calculations. The assumptions included past and future profitability, future plans and where applicable, financial support from subsidiaries. We have compared the impairment loss provided against exposure from outstanding amounts in evaluating management's impairment assessment.

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 remaining parts of 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 take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

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 of 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 2016 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 of 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.

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 and International Standards on Auditing 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 and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism 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.

Auditors' Responsibility for the Audit of the Financial Statements (continued)

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.

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 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: 28 April 2018

LIST OF TOP 10 MAJOR PROPERTIES
owned by the Group as at 31 December 2017

	Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
1.	279 Moo 13, Khao Hin Sorn Chachoengsao Thailand	(i) Industrial land	Freehold	759,228 m^2	–	–	31/12/2016	299,048
		(ii) Factory	–	–	56,995 m^2	10 years/ 25 years (due to extension of the building)	30/06/2017	
2.	Plot U13, Storeys Bar Road Peterborough United Kingdom	Vacant land	Freehold	331,800 m^2	–	–	06/02/2015	144,938
3.	Via Valtrighe, 5 & 6 24030 Terno d'Isola (BG);	(i) Fabrication plant	–	–	48,937 m^2	1st phase – 51 years 2nd phase – 26 years	31/12/2014	130,203
		(ii) Staff house	–	–	396 m^2	57 years	31/12/2014	
		(iii) Staff house	–	–	120 m^2	36 years	31/12/2014	
		(iv) Agricultural area	–	65,550 m^2	–	–	31/12/2014	
		(v) Industrial area	–	144,819 m^2	–	–	31/12/2014	
	Via Italia 24030 Mapello (BG), Italy	(vi) Reserved area	–	3,225 m^2	–	–	31/12/2014	
4.	Seiferitzer Allee 26/27	(i) Fabrication plant and office building	Leasehold (66 years) Expiring on 26/07/2071	37,000 m^2	12,700 m^2	12 years/ 10 years (due to extension of the building)	18/12/2014	59,201
	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	9 years	18/12/2014	
	Am Rhein 5 Rheinfelden, Germany	(iii) Extension on adjacent land (without any buiding)	Leasehold (66 years) Expiring on 31/05/2078	16,121 m^2	–	–	18/12/2014	

	Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
5.	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	54,687
		(ii) Fabrication plant and office building	–	–	18,778 m^2	17 years	31/12/2014	
6.	6204-46 Ave Tofield, AB TOB 4JO Canada	(i) Industrial land	–	457,299 m^2	–	–	19/12/2014	48,937
		(ii) Fabrication plant and office building	–	–	9,862 m^2	13 years	19/12/2014	
7.	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	43,716
	"Shu Fangquanzheng Bixi Zi No. 10001641";	(ii) Fabrication plant and office building	Leasehold (50 years) Expiring on 09/07/2052	–	17,012 m^2	16 years	09/12/2014	
	"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	11 years	09/12/2014	
8.	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	26 years	23/11/2014	33,938
9.	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	33,029
		(ii) Fabrication plant and office building	–	–	20,135 m^2	11 years	11/12/2014	

Location	Existing Use	Tenure	Land Area	Built-up Area	Approximate Age of Building	Date of Acquisition/ Revaluation	Net Book Value (RM'000)
10. Lot 208, Jalan PBR 19 and Lots 2835 & 2836, Jalan PBR 22 Bukit Rambai Industrial Estate Tanjong Minyak, Melaka Malaysia	(i) Industrial land (Lot 2835)	Leasehold (99 years) Expiring on 28/05/2094	5,857 m^2	–	–	31/12/2014	} 23,218
	(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	14 years	31/12/2014	}
	(v) Fabrication plant and office building (Lot 2837)	–	–	9,879 m^2	26 years	31/12/2014	}

A) ANALYSIS OF SHAREHOLDINGS

Total Number of Issued Shares	:	2,369,437,255*
Class of Shares	:	Ordinary shares
Voting Rights	:	One vote per ordinary share held

Note:
* Inclusive of 23,341,275 treasury shares

DISTRIBUTION OF SHAREHOLDINGS (as per Record of Depositors as at 31 March 2018)

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
Less than 100	1,521	3.99	69,956	Negligible
100 to 1,000	4,103	10.77	2,536,033	0.11
1,001 to 10,000	15,902	41.74	79,821,287	3.40
10,001 to 100,000	13,955	36.63	500,307,642	21.32
100,001 to less than 5% of issued shares	2,615	6.87	1,644,761,062	70.11
5% and above of issued shares	1	Negligible	118,600,000	5.06
TOTAL	**38,097**	**100.00**	**2,346,095,980^**	**100.00**

Note:
^ Excluding 23,341,275 treasury shares

THIRTY LARGEST SHAREHOLDERS (as per Record of Depositors as at 31 March 2018)

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)	118,600,000	5.06
2.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	90,945,042	3.88
3.	Pui Cheng Wui	83,718,900	3.57
4.	Citigroup Nominess (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 14)	44,558,000	1.90
5.	HSBC Nominees (Asing) Sdn Bhd - Exempt An for Bank Julius Baer & Co. Ltd. (Singapore BCH)	33,300,000	1.42
6.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB Bank for Tan Kim Heung (MY1989)	25,000,000	1.06
7.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for UBS AG Singapore (Foreign)	22,627,100	0.96
8.	Citigroup Nominees (Asing) Sdn Bhd - CBLDN for Polunin Emerging Markets Small Cap Fund, LLC	21,998,760	0.94

THIRTY LARGEST SHAREHOLDERS (as per Record of Depositors as at 31 March 2018) (CONT'D)

No.	Name of Shareholders	No. of Shares Held	%#
9.	HSBC Nominees (Asing) Sdn Bhd - JPMCB NA for Vanguard Total International Stock Index Fund	19,913,225	0.85
10.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	18,232,951	0.78
11.	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Tegas Klasik Sdn Bhd (Margin)	17,971,090	0.77
12.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (RHB Inv)	17,383,000	0.74
13.	HSBC Nominees (Asing) Sdn Bhd - JPMCB NA for Vanguard Emerging Markets Stock Index Fund	16,010,600	0.68
14.	MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng (MGN-LSE0004M)	15,580,000	0.66
15.	Citigroup Nominees (Asing) Sdn Bhd - CBLDN for Polunin Developing Countries Fund, LLC	12,984,857	0.55
16.	Affin Hwang Nominees (Asing) Sdn Bhd - Pledged Securities Account for Aveda Assets Capital Inc.	12,850,000	0.55
17.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng	10,259,404	0.44
18.	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (Affin AM B EQ)	10,031,480	0.43
19.	AMSEC Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Koh Kin Lip	10,000,000	0.43
20.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB Bank for Koh Kin Lip (MY0502)	10,000,000	0.43
21.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (PHEIM)	9,888,000	0.42
22.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Dimensional Emerging Markets Value Fund	9,080,290	0.39
23.	Chua Sim Neo @ Diana Chua	9,000,000	0.38
24.	Ooi Cheow Har	8,300,000	0.35
25.	Citigroup Nominees (Asing) Sdn Bhd - CEP For Polunin Funds	8,092,056	0.34
26.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	8,072,566	0.34

THIRTY LARGEST SHAREHOLDERS (as per Record of Depositors as at 31 March 2018) (CONT'D)

No.	Name of Shareholders	No. of Shares Held	%#
27.	Tee Kim Chee	8,000,000	0.34
28.	Cartaban Nominees (Asing) Sdn Bhd - SSBT Fund FA2N for Parametric Tax-Managed Emerging Markets Fund	7,927,875	0.34
29.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Poh Seng Kian (TJJ/KEN)	7,822,000	0.33
30.	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (Kenanga)	7,700,000	0.33
TOTAL		**695,847,196**	**29.66**

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS
(as per Register of Substantial Shareholders of the Company as at 31 March 2018)

	No. of Shares Held in KNM Group Berhad			
Name of Shareholders	Direct	%#	Indirect	%#
Inter Merger Sdn Bhd	227,855,551	9.71	46,206,897[a]	1.97
Ir Lee Swee Eng	37,408,838	1.59	329,102,856[b]	14.03
Gan Siew Liat	9,045,000	0.39	329,102,856[c]	14.03

DIRECTORS' INTERESTS IN SHARES IN KNM GROUP BERHAD AND RELATED CORPORATION
(as per Register of Directors' Shareholdings of the Company as at 31 March 2018)

	No. of Shares Held in KNM Group Berhad			
Name of Directors	Direct	%#	Indirect	%#
Dato' Ab Halim bin Mohyiddin	2,452,500	0.10	–	–
Ir Lee Swee Eng	37,408,838	1.59	329,102,856[b]	14.03
Dato' Dr Khalid bin Ngah	–	–	–	–
Dato' Sri Adnan bin Wan Mamat	–	–	–	–
Soh Yoke Yan	–	–	–	–
Gan Siew Liat	9,045,000	0.39	329,102,856[c]	14.03
Chew Fook Sin	5,173,140	0.22	22,448,058[d]	0.96

	Initial Capital Contribution KPS Technology & Engineering LLC			
Name of Director	Direct	%	Indirect	%
Ir Lee Swee Eng	USD100,000	5.56	USD1,700,000[e]	94.44

Notes:-

\# Percentage interest is based on the total ordinary shares of 2,346,095,980 (excluding 23,341,275 treasury shares held as at 31 March 2018).

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 his direct and indirect interests in KNM.

B) ANALYSIS OF WARRANTHOLDINGS

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 2018)

Range of Warrantholdings	No. of Warrantholders	%	No. of Warrants B	%
Less than 100	706	8.08	32,915	0.02
100 to 1,000	4,281	48.97	2,046,958	1.27
1,001 to 10,000	2,748	31.44	9,075,532	5.62
10,001 to 100,000	771	8.82	28,854,119	17.86
100,001 to less than 5% of issued warrants	234	2.68	112,562,528	69.66
5% and above of issued warrants	1	0.01	9,006,452	5.57
TOTAL	**8,741**	**100.00**	**161,578,504**	**100.00**

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2018)

No.	Name of Warrantholders	No. of Warrants B Held	%^
1.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Inter Merger Sdn Bhd	9,006,452	5.57
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.	Aslina Binti Mohd Islam	3,000,000	1.86
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.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB Bank for Khaw Ski Tian (MP0066)	2,670,000	1.65
9.	Citigroup Nominees (Asing) Sdn Bhd - Exempt An for Citibank New York (Norges Bank 1)	2,511,250	1.55
10.	Citigroup Nominees (Tempatan) Sdn Bhd - Exempt An for AIA Bhd	2,306,340	1.43
11.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lee Swee Eng	2,226,500	1.38
12.	Lim Chin Kiong	2,000,000	1.24

THIRTY LARGEST WARRANTHOLDERS (as per Record of Depositors as at 31 March 2018) (CONT'D)

No.	Name of Warrantholders	No. of Warrants B Held	%^
13.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Peng Heng (E-TSA)	1,850,000	1.15
14.	Citigroup Nominees (Asing) Sdn Bhd - CBLDN for Polunin Emerging Markets Small Cap Fund, LLC	1,833,230	1.14
15.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB Bank for Chong Hwa Jau (M78040)	1,780,000	1.10
16.	Christopher Ling Siew Ming	1,487,800	0.92
17.	Ong Yew Beng	1,450,000	0.90
18.	Choong Kean Leang	1,288,000	0.80
19.	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Hon Kwong Yew (M09)	1,250,000	0.77
20.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lai Ee Fong (E-TSA)	1,200,000	0.74
21.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB Bank for Mak Pak Lin (MY1378)	1,175,400	0.73
22.	Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Jit Soon (E-KLC)	1,101,900	0.68
23.	HSBC Nominees (Asing) Sdn Bhd - JPMCB NA for Vanguard Total International Stock Index Fund	1,085,088	0.67
24.	RHB Capital Nominees (Tempatan) Sdn Bhd - Hii Bik Kuok	1,050,000	0.65
25.	Maybank Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Lim Peng Heng	1,018,350	0.63
26.	Chiow Ya Yess	1,000,000	0.62
27.	Lim Wei Therk	1,000,000	0.62
28.	Tan Kok Keat	950,000	0.59
29.	HLB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Ooi Choi Kiat	910,200	0.56
30.	Citigroup Nominees (Asing) Sdn Bhd - CBLDN for Polunin Developing Countries Fund, LLC	903,790	0.56
TOTAL		**66,774,800**	**41.33**

DIRECTORS' INTERESTS IN WARRANTS IN KNM GROUP BERHAD
(as per Register of Directors' Warrantholdings of the Company as at 31 March 2018)

	No. of Warrants B Held in KNM Group Berhad			
Name of Directors	**Direct**	**%^**	**Indirect**	**%^**
Dato' Ab Halim bin Mohyiddin	204,375	0.13	–	–
Ir Lee Swee Eng	2,226,562	1.38	16,930,640[a]	10.48
Dato' Dr Khalid bin Ngah	–	–	–	–
Dato' Sri Adnan bin Wan Mamat	–	–	–	–
Soh Yoke Yan	–	–	10,000[b]	0.01
Gan Siew Liat	874,375	0.54	16,930,640[c]	10.48
Chew Fook Sin	358,595	0.22	993,171[d]	0.61

Notes:-

^ Percentage interest is based on the total outstanding Warrants B of 161,578,504 as at 31 March 2018.

a Deemed interested by virtue of his indirect interest in Inter Merger Sdn Bhd ("IMSB"), direct interest in Tegas Klasik Sdn Bhd ("TKSB"), direct interest in Aveda Assets Capital Inc. ("Aveda") and interest of his children in KNM.

b Deemed interested by virtue of the interest of her spouse 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.

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 16th 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 Wednesday, 27 June 2018 at 10.00 a.m. or at any adjournment thereof, in the manner indicated below:

No.	Resolutions	For	Against
1.	Re-election of Ir Lee Swee Eng as Director		
2.	Re-election of Soh Yoke Yan 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 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 ________________, 2018

____
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 20 June 2018 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 16th 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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