THIS AP IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY. If you have sold or transferred all your shares in KNM, you should at once hand this AP together with the NPA and the RSF (collectively referred to as "**Documents**") to the agent/broker through whom you effected the sale/transfer for onward transmission to the purchaser/transferee. All enquiries concerning the Rights Issue should be addressed to our Share Registrar, Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan.

The Documents relating to the Rights Issue are only despatched to our shareholders who have a registered address in Malaysia and whose names appear in our Record of Depositors at 5.00 p.m. on 18 October 2012. The Documents are not intended to be (and will not be) issued, circulated or distributed in countries or jurisdictions other than Malaysia. No action has been or will be taken to ensure that the Rights Issue and the Documents comply with the laws of countries or jurisdictions other than the laws of Malaysia. It shall be the sole responsibility of Entitled Shareholders and/or their renouncee(s) (if applicable) who are residing in countries or jurisdictions other than Malaysia to immediately consult their legal advisers and other professional adviser as to whether the acceptance, renunciation, sale or transfer of the Provisional Rights Shares with Warrants (as the case may be), would result in the contravention of any laws of such countries or jurisdictions. Neither we nor RHB Investment Bank shall accept any responsibility or liability whatsoever to any party in the event that any acceptance, renunciation, sale or transfer of the Provisional Rights Shares with Warrants (as the case may be) made by Entitled Shareholders and/or their renouncee(s) (if applicable) is or shall become illegal, unenforceable, voidable or void in such countries or jurisdictions in which Entitled Shareholders and/or their renouncee(s) (if applicable) is a resident.

A copy of this AP together with the NPA and RSF has been registered with the SC. The registration of this AP together with the NPA and RSF should not be taken to indicate that the SC recommends the Rights Issue or assumes responsibility for the correctness of any statement made or opinion or report expressed in this AP. The SC has not, in any way, considered the merits of the securities being offered for investment. A copy of the AP together with the NPA and RSF has also been lodged with the Registrar of Companies who takes no responsibility for their contents.

Approval for the Rights Issue has been obtained from our shareholders at the EGM held on 20 September 2012. Approval has also been obtained from Bursa Securities vide its letter dated 14 August 2012 for the admission of the Warrants to the Official List of Bursa Securities and the listing of and quotation for the Rights Shares, Warrants and the new KNM Shares to be issued upon exercise of the Warrants on the Main Market of Bursa Securities. The admission of the Warrants to the Official List of Bursa Securities and listing of and quotation for the Right Shares, Warrants and the new KNM Shares to be issued upon exercise of the Warrants will commence after, amongst others, receipt of confirmation from Bursa Depository that all the CDS Accounts of Entitled Shareholders and/or their renouncee(s) (if applicable) have been duly credited and notices of allotment for the Rights Shares with Warrants have been despatched to them. The admission of the Warrants to the Official List of Bursa Securities and listing of and quotation for the Rights Shares, Warrants and the new KNM Shares to be issued upon exercise of the Warrants are in no way reflective of the merits of the Rights Issue. Neither Bursa securities Bursa Securities nor the SC takes any responsibility for the correctness of statements made or expressed herein.

Your Board has seen and approved all the documentation relating to the Rights Issue. They collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable inquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make the statements in the Documents false or misleading.

RHB Investment Bank, being the Principal Adviser, Managing Underwriter, Joint Lead Underwriter and Co-Underwriter for the Rights Issue, acknowledges that, based on all available information, and to the best of its knowledge and belief, this AP constitutes a full and true disclosure of all material facts concerning the Rights Issue.

All abbreviations used herein shall have the same meaning as those defined in the "Definitions" page of this AP unless stated otherwise.

KNM GROUP BERHAD
(Company No.: 521348-H)
(Incorporated in Malaysia under the Companies Act, 1965)

RENOUNCEABLE TWO-CALL RIGHTS ISSUE OF 488,920,659 NEW KNM SHARES AT AN ISSUE PRICE OF RM1.00 FOR EACH RIGHTS SHARE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY TWO (2) EXISTING KNM SHARES HELD AT 5.00 P.M. ON 18 OCTOBER 2012 TOGETHER WITH 488,920,659 DETACHABLE WARRANTS ON THE BASIS OF ONE (1) WARRANT FOR EVERY ONE (1) RIGHTS SHARE SUBSCRIBED FOR, OF WHICH THE FIRST CALL OF RM0.40 IS PAYABLE IN CASH ON APPLICATION AND THE SECOND CALL OF RM0.60 IS TO BE CAPITALISED FROM KNM'S SHARE PREMIUM ACCOUNT

Principal Adviser, Managing Underwriter, Joint Lead Underwriter & Co-Underwriter

RHB Investment Bank Berhad
(Company No.: 19663-P)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Joint Lead Underwriter & Co-Underwriter

TA Securities Holdings Berhad
(Company No.: 14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Co-Lead Underwriter & Co-Underwriter

Mercury Securities Sdn Bhd
(Company No.: 113193-W)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Co-Underwriters

M&A Securities Sdn Bhd
(Company No.: 15017-H)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

OSK Investment Bank Berhad
(Company No.: 14152-V)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

IMPORTANT RELEVANT DATES AND TIMES

Entitlement Date	Thursday, 18 October 2012 at 5.00 p.m.
LAST DATES AND TIMES FOR:-	
Sale of Provisional Rights Shares with Warrants	Thursday, 25 October 2012 at 5.00 p.m.
Transfer of Provisional Rights Shares with Warrants	Wednesday, 31 October 2012 at 4.00 p.m.
Acceptance and Payment for Rights Shares with Warrants	Monday, 5 November 2012 at 5.00 p.m.*
Application and Payment for Excess Rights Shares with Warrants	Monday, 5 November 2012 at 5.00 p.m.*

** or such later date and time as your Board may decide in its absolute discretion and announce not less than two (2) Market Days before the stipulated date and time.*

This Abridged Prospectus is dated 18 October 2012

Company No.: 521348-H

THE SC SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON OUR PART AND TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS AP, MAKES NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS, AND EXPRESSLY DISCLAIMS ANY LIABILITY FOR ANY LOSS YOU MAY SUFFER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS AP.

INVESTORS ARE ADVISED TO NOTE THAT RECOURSE FOR FALSE AND MISLEADING STATEMENTS OR ACTS MADE IN CONNECTION WITH THIS AP ARE DIRECTLY AVAILABLE THROUGH SECTIONS 248, 249 AND 357 OF THE CAPITAL MARKETS & SERVICES ACT, 2007 ("CMSA").

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

SECURITIES LISTED ON BURSA SECURITIES ARE OFFERED TO THE PUBLIC PREMISED ON FULL AND ACCURATE DISCLOSURE OF ALL MATERIAL INFORMATION CONCERNING THE RIGHTS ISSUE FOR WHICH ANY OF THE PERSONS SET OUT IN SECTION 236 OF THE CMSA, E.G. DIRECTORS AND ADVISERS, ARE RESPONSIBLE.

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this AP:-

Abridged Prospectus or AP	:	This Abridged Prospectus dated 18 October 2012 in relation to the Rights Issue
Act	:	Companies Act, 1965 including any amendments thereto that may be made from time to time
BNM	:	Bank Negara Malaysia
Board	:	Board of Directors
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities	:	Bursa Malaysia Securities Berhad (635998-W)
CDS	:	Central Depository System, the system established and operated by Bursa Depository for the central handling of securities deposited with Bursa Depository
CDS Account(s)	:	Account established by Bursa Depository for a depositor for the recording of deposit of securities and dealings in such securities by that depositor of securities
Code	:	The Malaysian Code on Take-Overs and Merger 2010, including any amendments thereto from time to time
Controller	:	Controller of Foreign Exchange of BNM
Deed Poll	:	The deed poll dated 4 October 2012 constituting the Warrants
Documents	:	AP, NPA and RSF, collectively
EGM	:	Extraordinary General Meeting
Entitled Shareholder(s)	:	Our shareholder(s) whose name(s) appear in our Record of Depositors on the Entitlement Date
Entitlement Date	:	As at 5.00 p.m. on 18 October 2012, being the time and date on which our shareholders must be registered in our Record of Depositors in order to be entitled to the Rights Issue
EPS	:	Earnings per Share
Excess Rights Shares with Warrants	:	Rights Shares with Warrants which are not taken up or not validly taken up by Entitled Shareholders and/or their renouncee(s) prior to excess share application
First Call	:	Being the first call price of RM0.40 per Rights Share payable in full in cash upon application by the Entitled Shareholders
Foreign Addressed Shareholders	:	Our foreign shareholders on the Entitlement Date who have not provided an address in Malaysia for the service of documents to be issued for purposes of the Rights Issue
FPE	:	Financial period ended/ending, as the case may be
FYE	:	Financial year(s) ended/ending, as the case may be
GSL	:	Gan Siew Liat

DEFINITIONS ***(Cont'd)***

ILSE	:	Ir Lee Swee Eng
Inter Merger	:	Inter Merger Sdn Bhd (162106-U)
LPD	:	18 September 2012, being the latest practicable date prior to the registration of this AP with the SC
Market Day(s)	:	Any day between Monday and Friday (both days inclusive) which is not a public holiday and on which Bursa Securities is open for trading of securities
NA	:	Net assets
NPA	:	Notice of provisional allotment
Official List	:	A list specifying all securities which have been admitted for the listing on Bursa Securities
Price-Fixing Date	:	28 September 2012, being the date on which we had fixed and announced the entitlement basis for the Rights Issue, issue price for the Rights Shares and exercise price for the Warrants
Provisional Rights Shares with Warrants	:	Rights Shares with Warrants provisionally allotted to Entitled Shareholders
Record of Depositors	:	A record of securities holders established by Bursa Depository under Chapter 24.0 of the Rules of Bursa Depository including any amendments thereof issued by Bursa Depository
RHB Investment Bank	:	RHB Investment Bank Berhad (19663-P)
Rights Issue	:	Renounceable two-call rights issue of 488,920,659 Rights Shares at an issue price of RM1.00 for each Rights Share on the basis of one (1) Rights Share for every two (2) existing KNM Shares held as at 5.00 p.m. on 18 October 2012 together with 488,920,659 detachable Warrants on the basis of one (1) Warrant for every one (1) Rights Share subscribed for, of which the first call of RM0.40 is payable in cash on application and the second call of RM0.60 is to be capitalised from KNM's share premium account
Rights Share(s)	:	New KNM Share(s) to be issued pursuant to the Rights Issue
RSF	:	Rights subscription form
Rules of Bursa Depository	:	The rules of Bursa Depository as issued pursuant to the SICDA including any amendments thereto that may be made from time to time
SC	:	Securities Commission Malaysia
Second Call	:	Being the second call of RM0.60 per Rights Share which will be capitalised from our Company's share premium account
Share(s) or KNM Share(s)	:	Ordinary share(s) of RM1.00 cach in our Company
SICDA	:	Securities Industry (Central Depositories) Act, 1991 including any amendments thereto that may be made from time to time
Tegas Klasik	:	Tegas Klasik Sdn Bhd (229466-D)
TERP	:	Theoretical ex-rights price

VWAP	:	Volume weighted average market price
Warrant(s)	:	New warrant(s) in our Company to be issued pursuant to the Rights Issue
Underwriters	:	RHB Investment Bank, TA Securities Holdings Berhad, Mercury Securities Sdn Bhd, M&A Securities Sdn Bhd and OSK Investment Bank Berhad collectively
Underwriting Agreement	:	The underwriting agreement dated 28 September 2012 between our Company and the Underwriters in relation to the Rights Issue

Currency

AED	:	United Arab Emirates Dirham, the official currency of the United Arab Emirates
BND	:	Bruneian Dollar, the official currency of Negara Brunei Darussalam
BRL	:	Brazilian Real, the official currency of the Republic of Brazil
CAD	:	Canadian Dollar, the official currency of Canada
EUR	:	Euro, the official currency of the European Union
GBP	:	British pound sterling, the official currency of the United Kingdom
HKD	:	Hong Kong Dollar, the official currency of the Hong Kong Special Administrative Region of the People's Republie of China
INR	:	Indian Rupee, the official currency of the Republic of India
RM and sen	:	Ringgit Malaysia and sen, respectively
RMB	:	Chinese Renminbi, the official currency of the People's Republic of China
SAR	:	Saudi Arabian Riyal, the offieial currency of Saudi Arabia
THB	:	Thai Baht, the official currency of the Kingdom of Thailand
USD	:	United States Dollars, the official currency of the United States of America
ZAR	:	South African Rand, the official currency of the Republic of South Africa

All references to "**our Company**" in this AP are to KNM Group Berhad, and references to "**our Group**" are to our Company and our subsidiaries. References to "**we**", "**us**", "**our**" and "**ourselves**" are to our Company, and where the context otherwise requires, shall include our subsidiaries.

All references to "**you**" and "**your**" in this AP are to our Entitled Shareholders.

Words denoting the singular shall, where applicable, include the plural and vice versa, and words denoting the masculine gender shall, where applicable, include the feminine and/or neuter gender(s), and vice versa. References to persons shall include corporations, unless otherwise specified.

Any reference in this AP to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to time of day in this AP is a reference to Malaysian time, unless otherwise stated.

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APPENDICES

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CORPORATE DIRECTORY

OUR BOARD

Name *(Designation)*	Address	Nationality	Profession
Ir Lee Swee Eng *(Executive Chairman/Chief Executive Officer)*	39, Jalan Awan Cina Taman Yarl 58200 Kuala Lumpur	Malaysian	Company Director
Dato' Ab Halim bin Mohyiddin, DPMS *(Senior Independent Non-Executive Director)*	No. 30 Jalan Kelab Golf 13/6 40000 Shah Alam Selangor Darul Ehsan	Malaysian	Company Director
Datuk Karownakaran @ Karunakaran a/l Ramasamy *(Independent Non-Executive Director)*	No. 6 Jalan Lengkok Zaaba Taman Tun Dr Ismail 60000 Kuala Lumpur	Malaysian	Company Director
Dato' Dr Khalid bin Ngah *(Independent Non-Executive Director)*	18175, Jalan Melati Indah 1 Kemensah Heights 53100 Kuala Lumpur	Malaysian	Company Director
Gan Siew Liat *(Executive Director)*	39, Jalan Awan Cina Taman Yarl 58200 Kuala Lumpur	Malaysian	Company Director
Chew Fook Sin *(Executive Director)*	5-10 Fortuna Court Jalan Awan Cina 58200 Kuala Lumpur	Malaysian	Company Director

AUDIT COMMITTEE

Name	Designation	Directorship
Dato' Ab Halim bin Mohyiddin, DPMS	Chairman	Senior Independent Non-Executive Director
Datuk Karownakaran @ Karunakaran a/l Ramasamy	Member	Independent Non-Executive Director
Dato' Dr Khalid bin Ngah	Member	Independent Non-Executive Director

COMPANY SECRETARIES : Fariz bin Abdul Aziz (LS 0007997)
15 Jalan Putra Harmoni 1/3B
Putra Avenue, Putra Heights
47650 Subang Jaya
Selangor Darul Ehsan

Lau Bee Gee (MAICSA 0817743)
48 Jalan SS18/2A, Subang Jaya
47500 Petaling Jaya
Selangor Darul Ehsan

REGISTERED OFFICE AND HEAD/MANAGEMENT OFFICE	:	15, Jalan Dagang SB4/1 Taman Sungai Besi Indah 43300 Seri Kembangan Selangor Darul Ehsan Tel. No.: (603) 8946 3000 Fax. No.: (603) 8943 4781 Email : knm@knm-group.com Website : www.knm-group.com
AUDITORS AND REPORTING ACCOUNTANTS FOR THE RIGHTS ISSUE	:	KPMG (AF: 0758) Chartered Accountants Level 10, KPMG Tower 8 First Avenue, Bandar Utama 47800 Petaling Jaya Selangor Darul Ehsan Tel. No.: (603) 7721 3388 Fax. No.: (603) 7721 3399
SOLICITORS FOR THE RIGHTS ISSUE	:	Kamilah & Chong Suite 3B-16-7, Level 16 Block 3B Plaza Sentral Jalan Stesen Sentral 5 Kuala Lumpur Sentral 50470 Kuala Lumpur Tel. No.: (603) 2278 8311 Fax. No.: (603) 2273 8322
SOLICITORS FOR THE UNDERWRITERS	:	Zul Rafique & Partners D3-3-8, Solaris Dutamas No.1, Jalan Dutamas 1 50480 Kuala Lumpur Tel. No.: (603) 6209 8228 Fax. No.: (603) 6209 8221/8331/8381/8373
PRINCIPAL BANKERS *(in alphabetical order)*	:	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad Level 9, 10 & 11, Menara IMC No. 8, Jalan Sultan Ismail 50250 Kuala Lumpur Tel. No.: (603) 2034 8000 Fax. No.: (603) 2034 8008 Malayan Banking Berhad Menara Maybank 100, Jalan Tun Perak 50050 Kuala Lumpur Tel. No.: (603) 2070 8833 Fax. No.: (603) 2715 9442

CORPORATE DIRECTORY *(Cont'd)*

PRINCIPAL BANKERS *(in alphabetical order)* *(cont'd)*	:	Standard Chartered Bank Malaysia Berhad Level 13, Menara Standard Chartered 30, Jalan Sultan Ismail 50250 Kuala Lumpur Tel. No.: (603) 2117 7777 Fax. No.: (603) 2117 7610
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 Tel. No.: (603) 7841 8000 Fax. No.: (603) 7841 80088151/8152
PRINCIPAL ADVISER, MANAGING UNDERWRITER, JOINT LEAD UNDERWRITER & CO-UNDERWRITER	:	RHB Investment Bank Berhad Level 10, Tower One RHB Centre Jalan Tun Razak 50400 Kuala Lumpur Tel. No.: (603) 9287 3888 Fax. No.: (603) 9287 2233/3355
JOINT LEAD UNDERWRITER & CO-UNDERWRITER	:	TA Securities Holdings Berhad 34th Floor, Menara TA One 22 Jalan P. Ramlee 50250 Kuala Lumpur Tel. No.: (603) 2072 1277 Fax. No.: (603) 2026 7241
CO-LEAD UNDERWRITER & CO-UNDERWRITER	:	Mercury Securities Sdn Bhd L-7-2, No.2, Jalan Solaris Solaris Mont' Kiara 50480 Kuala Lumpur Tel. No.: (603) 6203 7227 Fax. No.: (603) 6203 7117
CO-UNDERWRITERS *(in alphabetical order)*	:	M&A Securities Sdn Bhd Level 1-3 No. 45 & 47, The Boulevard Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Tel. No.: (603) 2282 1820 Fax. No.: (603) 2283 1019

CORPORATE DIRECTORY *(Cont'd)*

CO-UNDERWRITERS ***(Cont'd)*** *(in alphabetical order)*	:	OSK Investment Bank Berhad 20th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Tel. No.: (603) 2333 8333 Fax. No.: (603) 2175 3391
STOCK EXCHANGE LISTING	:	Main Market of Bursa Securities

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KNM GROUP BERHAD
(Company No.: 521348-H)
(Incorporated in Malaysia under the Act)

Registered Office
15, Jalan Dagang SB4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan, Malaysia

18 October 2012

Board of Directors
Ir Lee Swee Eng *(Executive Chairman/Chief Executive Officer)*
Dato' Ab Halim bin Mohyiddin, DPMS *(Senior Independent Non-Executive Director)*
Datuk Karownakaran @ Karunakaran a/l Ramasamy *(Independent Non-Executive Director)*
Dato' Dr Khalid bin Ngah *(Independent Non-Executive Director)*
Gan Siew Liat *(Executive Director)*
Chew Fook Sin *(Executive Director)*

To: Our Shareholders

Dear Sir / Madam,

RENOUNCEABLE TWO-CALL RIGHTS ISSUE OF 488,920,659 RIGHTS SHARES AT AN ISSUE PRICE OF RM1.00 FOR EACH RIGHTS SHARE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY TWO (2) EXISTING KNM SHARES HELD AT 5.00 P.M. ON 18 OCTOBER 2012 TOGETHER WITH 488,920,659 DETACHABLE WARRANTS ON THE BASIS OF ONE (1) WARRANT FOR EVERY ONE (1) RIGHTS SHARE SUBSCRIBED FOR, OF WHICH THE FIRST CALL OF RM0.40 IS PAYABLE IN CASH ON APPLICATION AND THE SECOND CALL OF RM0.60 IS TO BE CAPITALISED FROM KNM'S SHARE PREMIUM ACCOUNT

1. INTRODUCTION

On 21 June 2012, RHB Investment Bank had, on behalf of your Board, announced that we proposed to undertake, *inter-alia*, a renounceable two-call rights issue of new KNM Shares together with detachable Warrants to raise gross proceeds of approximately RM195.5 million.

On 14 August 2012, RHB Investment Bank had, on behalf of your Board, announced that the Controller has vide its letter dated 10 August 2012 approved the issuance of the Warrants to non-residents.

On 15 August 2012, RHB Investment Bank had, on behalf of your Board, announced that Bursa Securities has vide its letter dated 14 August 2012 approved the following:-

(a) admission to the Official List and the listing of and quotation for 488,920,659 Warrants on the Main Market of Bursa Securities; and

(b) listing of and quotation for the following on the Main Market of Bursa Securities:-

  (i) 488,920,659 Rights Shares; and

  (ii) 488,920,659 new KNM Shares to be issued pursuant to the exercise of the Warrants, subject to, *inter-alia*, the following conditions:-

	Conditions imposed	Status of compliance
(i)	KNM and RHB Investment Bank, being the principal adviser, must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Rights Issue;	To be complied
(ii)	KNM and RHB Investment Bank to inform Bursa Securities upon the completion of the Rights Issue;	To be complied
(iii)	KNM to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Rights Issue is completed; and	To be complied
(iv)	KNM to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of the Warrants as at the end of each quarter together with a detailed computation of listing fees payable.	To be complied

At an EGM held on 20 September 2012, our shareholders had approved, *inter-alia*, the Rights Issue. A certified true extract of the ordinary resolution approving the Rights Issue at the said EGM is set out in Appendix I of this AP.

On 25 September 2012, RHB Investment Bank had, on behalf of your Board, announced the following:-

(i) that the entitlement basis has been fixed at one (1) Rights Share for every two (2) existing KNM Shares and one (1) Warrant for every one (1) Rights Share subscribed for;

(ii) that the issue price of RM1.00 per Rights Share has been fixed at RM1.00, payable in full in the following manner:-

(a) the First Call of RM0.40 per Rights Share shall be payable in full on application in cash; and

(b) the Second Call of RM0.60 per Rights Share shall be capitalised from our Company's share premium account;

(iii) that the subscribing Entitled Shareholders of KNM will not be required to make any further cash payment after the payment for the First Call; and

(iv) that the exercise price for the Warrants has been fixed at RM1.00 per Warrant for each new KNM Share.

The admission of the Warrants to the Official List of Bursa Securities and the listing of and quotation for the Rights Shares, Warrants and the new KNM Shares to be issued upon exercise of the Warrants will commence after, amongst others, the receipt of confirmation from Bursa Depository that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to them.

No person is authorised to give any information or make any representation not contained in this AP in connection with the Rights Issue and if given or made, such information or representation must not be relied upon as having been authorised by us or RHB Investment Bank.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

2. PARTICULARS OF THE RIGHTS ISSUE

2.1 Details of the Rights Issue

In accordance with the terms of the Rights Issue as approved by our shareholders at the EGM held on 20 September 2012, and subject to the terms of this AP and the accompanying documents, we shall provisionally allot 488,920,659 Rights Shares to Entitled Shareholders on the basis of one (1) Rights Shares for every two (2) existing KNM Shares held as at the Entitlement Date together with 488,920,659 detachable Warrants on the basis of one (1) Warrant for every one (1) Rights Shares subscribed for.

The issue price for the Rights Shares of RM1.00 per Rights Share is payable in the following manner:-

(a) the First Call of RM0.40 per Rights Share shall be payable in full upon acceptance in cash; and

(b) the Second Call of RM0.60 per Rights Share shall be capitalised from our Company's share premium account.

The subscribing Entitled Shareholders will not be required to make any further cash payment after the payment for the First Call.

As an Entitled Shareholder, you will find enclosed with this AP, a NPA setting out the number of Rights Shares for which you are entitled to subscribe for under the terms of the Rights Issue and a RSF, which is to be used for the acceptance of your Provisional Rights Shares with Warrants.

In determining Entitled Shareholders' entitlements to the Rights Shares, fractional entitlements, if any, will be dealt with in such manner and on such terms and conditions as your Board in its absolute discretion deem fit or expedient or in the best interest of our Company.

The Rights Issue is renounceable in full or in part. Accordingly, Entitled Shareholders can subscribe for and/or renounce their entitlements to the Rights Shares in full or in part. Entitled Shareholders who renounce all or part of their entitlements to the Rights Shares shall be deemed to have renounced the accompanying entitlement to the Warrants. If an Entitled Shareholder decides to accept only part of his/her entitlement to the Rights Shares, he/she shall be entitled to the Warrants in the proportion of his/her acceptance to her/her entitlement to the Rights Shares.

For avoidance of doubt, the Warrants are attached to the Rights Shares for no additional payment and will be issued only to Entitled Shareholders and/or their renouncee(s) (if applicable) who subscribe for the Rights Shares. The Rights Shares and the Warrants are not separately renounceable. The Warrants shall be immediately detached from the Rights Shares upon issuance and shall be separately traded on Bursa Securities.

Your Board will allot Excess Rights Shares with Warrants, if any, subject always to such allocation being made on a fair and equitable basis, and that the intention of your Board set out in (i) to (iii) below are achieved on such basis as it may deem fit or expedient and in the best interest of our Company. The basis for the allotment of the Excess Rights Shares with Warrants is as follows:-

(i) firstly, to minimise the incidence of odd lots;

(ii) secondly, for allocation to Entitled Shareholders who have applied for the Excess Rights Shares with Warrants on a pro-rata basis and in board lot, calculated based on their respective shareholdings as at the Entitlement Date; and

(iii) thirdly, for allocation to Entitled Shareholders and/or their renouncee(s) (if applicable) who have applied for the Excess Rights Shares with Warrants on a pro-rata basis, calculated based on the quantum of their respective Excess Rights Shares with Warrants application.

The Rights Issue is not undertaken on a minimum level of subscription basis.

The Rights Shares and the Warrants will, upon allotment and issue, be credited directly into the respective CDS Accounts of Entitled Shareholders and/or their renouncee(s) (if applicable) who have successfully subscribed for such Rights Shares. No physical share certificate or warrant certificate will be issued to Entitled Shareholders and/or their renouncee(s) (if applicable) nor will any physical share certificate be issued for the new KNM Shares to be issued upon exercise of the Warrants.

2.2 Basis of determining the issue price for the Rights Shares, First Call and exercise price for the Warrants

The issue price of RM1.00 per Rights Share, the First Call price of RM0.40 per Rights Share and the exercise price of RM1.00 per Warrant were determined by your Board after taking into consideration, among others, the TERP of KNM Shares of RM0.59 based on the 5-day VWAP up to and including 24 September 2012, being the Market Day immediately preceding the Price-Fixing Date, of approximately RM0.69.

The First Call price of RM 0.40 per Rights Shares represents:-

(a) a discount of approximately 32% from the TERP of KNM Shares of RM0.59, based on the 5-days VWAP up to and including 24 September 2012, being the Market Day immediately prior to the Price-Fixing Date, of approximately RM0.69; and

(b) a discount of 32% from the TERP of KNM Shares of RM0.59, based on the 5-days VWAP up to and including 15 October 2012, being the Market Day immediately prior to the ex-date of the Rights Issue, of approximately RM0.69.

The exercise price of RM1.00 represents a premium of approximately 69% to the TERP of KNM Shares of RM0.59 based on the 5-day VWAP up to and including 24 September 2012, being the Market Day immediately preceding the Price-Fixing Datc, of approximately RM0.69.

2.3 Capitalisation of reserves

Details of the capitalisation for the Second Call based on our latest audited consolidated financial statements for the FYE 31 December 2011 and latest unaudited consolidated financial statements for the 6-month FPE 30 June 2012 are as follows:-

Based on the consolidated financial statements as at	***Audited*** **31 December 2011**	***Unaudited*** **30 June 2012**
	(RM'000)	**(RM'000)**
Share premium account	319,426	319,426
Less: Capitalisation for the Second Call*	(299,353)	(299,353)
After the Rights Issue	**20,073**	**20,073**

Note:-

* *After capitalisation of approximately RM293.35 million and upon deducting the estimated expense for the Rights Issue of approximately RM6.00 million.*

2.4 Ranking of the Rights Shares

The Rights Shares shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing KNM Shares, save and except that these Rights Shares shall not carry any entitlement to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to our shareholders, the entitlement date of which is prior to the date of allotment of the Rights Shares.

The new KNM Shares to be issued upon exercise of the Warrants shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing KNM Shares, save and except that these new KNM Shares shall not carry any entitlement to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to our shareholders, the entitlement date of which is prior to the date of allotment of the new KNM Shares arising from the exercise of the Warrants.

2.5 Salient terms of the Warrants

The salient terms of the Warrants to be issned pursuant to the Rights Issue are as follows:-

Issuer	:	KNM
Issue Size	:	488,920,659 new Warrants to be issued in conjunction with the Rights Issue to the Entitled Shareholders on the basis of one (1) Warrant for one (1) Rights Shares successfully subscribed. The number of Warrants may be subject to adjustments under certain circumstances in accordance with the provisions of the Deed Poll.
Form and Denomination	:	The Warrants are immediately detachable from the Rights Shares upon issuance and shall be separately traded on Bursa Securities. The Warrants shall be issued in registered form.
Issue Price	:	The Warrants are to be issued for no additional payment to the Entitled Shareholders or renouncees who subscribe for the Rights Shares.
Exercise Period	:	The Warrants may be exercised at any time within a period commencing on or including the date of issuc of the Warrants and ending at 5.00 p.m. on the Expiry Date. Any Warrants not exercised during the Exercise Period shall thereafter lapse and cease to bc valid for any purpose.
Exercise Price	:	The exercise price of the Warrants is RM1.00 each. The Exercise Price is subject to adjustments under certain circumstanccs in accordancc with the provisions of the Dced Poll.
Exercise Rights	:	Each Warrant entitles the registered holder to subscribe for onc (1) new KNM Share at any timc during the Exercise Period at the Excrcise Pricc subject to any adjustment in accordancc with the provisions of the Decd Poll.
Expiry Date	:	A date being 5 years from and including the date of issue of the Warrants providcd that if such day falls on a day which is not a market day, then on the preceding Market Day.
Mode of Exercise	:	The registered holder of a Warrant is required to lodge a subscription form, as set out in the Decd Poll, with our Company's rcgistrar, duly complctcd, signed and stamped together with the payment of thc Exercise Price by bankers' draft or cashier's order drawn on a bank operating in Malaysia or a money order or postal order issued by a post office in Malaysia.
Board lot	:	For purposes of trading on Bursa Sccurities, a board lot of the Warrants shall comprise 100 units of the Warrants carrying thc right to subscribe for 100 new KNM Shares or such other denomination as determined by Bursa Sccurities.

Rights of the Warrants	:	The holders of the Warrants are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in our Company until and unless such holder of the Warrants are issued with new KNM Shares arising from their exercise of the Warrants, save and except that they will not be entitled to any dividend rights, allotment and/or other distributions that may be declared, made or paid prior to the relevant allotment date of the said KNM Shares.
Adjustments to the Exercise Price and/or number of Warrants	:	The Exercise Price and number of Warrants in issue may be adjusted from time to time in accordance with the provisions of the Deed Poll.
Rights of the holders of the Warrants in the event of winding-up, eompromise and/or arrangement	:	Where a resolution has been passed by our Company for a members' voluntary winding-up or there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruetion of our Company or the amalgamation of our Company with one or more eompanies:- (a) for the purpose of such a winding-up, compromise or arrangement (other than consolidation, amalgamation or merger in which our Company is the continuing corporation) to which the holders of the Warrants (or some persons designated by them for sueh purposes) has approved by special resolution, the terms of sueh winding-up, compromise or arrangement shall be binding on all the holders of the Warrants; and (b) in any other ease, every holder of the Warrants shall be entitled at any time within six (6) weeks after the passing of such resolution for winding-up or the granting of the court order, by irrevocable surrender of his Warrants together with payment of the relevant subscription monies to elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the subscription rights represented by sueh Warrants and be entitled to receive out of the assets which would be available in liquidation if he had on such date been the holder of the new Shares to which he would have become entitled pursuant to such exercise and the liquidator of our Company shall give effeet to such election accordingly.
Listing	:	The approval in-principle from Bursa Securities has been obtained for the admission of the Warrants to the Official List of Bursa Securities and for the listing and quotation for the Warrants and the new KNM Shares to be issued upon exereise of the Warrants on the Main Market of Bursa Securities
Transferability	:	The Warrants shall be transferable in the manner provided under the Securities Industry (Central Depositories) Act, 1991 and the Rules of Bursa Depository.
Deed Poll	:	The Warrants will be eonstituted under the Deed Poll.
Governing Law	:	The Warrant and the Deed Poll shall be governed by the laws of Malaysia.

2.6 Details of other corporate exercises

As at the LPD (unless otherwise as updated below), there are no other outstanding proposals announced by our Company, which are pending implementation:-

(a) Proposed acquisition of 100% equity interest in Poplar Investments Limited comprising one (1) ordinary share of GBP1.00 from Poplar Holdings Limited ("**PHL**") by our wholly owned subsidiary, KMK Power Sdn Bhd ("**KMK**") for a total consideration of GBP25 million as announced on 25 January 2012, 8 February 2012, 10 February 2012, 28 February 2012, 10 April 2012, 21 May 2012, 8 June 2012, 14 August 2012 and 19 September 2012. The acquisition is expected to be completed by 31 October 2012.

(b) Proposed issue of Sukuk Programmes of up to RM1,500 million comprising of Islamic Commercial Paper ("**ICP**") Programme of up to RM400 million ("**ICP Programme**") and Islamic Medium Term Note ("**IMTN**") Programme of up to RM1,100 million ("**IMTN Programmes**).

The ICP Programme shall have a tenure of up to seven (7) years and the IMTN Programme shall have a tenure of up to fifteen (15) years from the date of the first issuance under the Sukuk Programmes. To-date our Company has not issued any of the ICPs and IMTNs.

(c) Proposed listing of BORSIG Beteiligungsverwaltungsgesellschaft mbH ("**BORSIG**"), a wholly owned subsidiary of KNM, on the Main Board of Singapore Exchange Securities Trading Limited as announced on 6 September 2012.

3. RATIONALE FOR THE RIGHTS ISSUE

After due consideration of the various methods of fund-raising such as the issuance of private debt securities or bank borrowings as well as the capital structure of our Company, your Board is of the opinion that the Rights Issue is the most appropriate means of raising funds for the following reasons:-

(i) The proceeds arising from the Rights Issue will be used to repay our Company's/Group's bank borrowings, effectively reducing our Company's/Group's total borrowings and interest expenses;

(ii) The Rights Issue will enable our Company to raise the requisite funds for working capital purposes without incurring additional interest expense, thereby minimising any potential cash outflow in respect of interest servicing;

(iii) The Rights Issue will involve the issuance of new KNM Shares without diluting existing shareholders' percentage shareholdings provided that all Entitled Shareholders subscribe in full their respective entitlements under the Rights Issue;

(iv) The Rights Issue will provide the Entitled Shareholders with an opportunity to further increase their equity participation in our Company and ultimately, participate in the prospects and future growth of our Group by subscribing to the Rights Shares which will be offered at a discount to the TERP of KNM Shares;

(v) The Warrants, which are attached to the Rights Shares, are intended to provide an added incentive to the shareholders to subscribe for their Rights Shares, providing them with potential capital appreciation arising from the exercise of the Warrants, depending on the future performance of KNM Shares; and

(vi) Upon exercise of the Warrants, our Company will obtain additional proceeds for further repayments of borrowings and the working capital requirements of our Group.

4. UTILISATION OF PROCEEDS

The gross proceeds to be raised from the Rights Issue are expected to be utilised in the following manner:-

		(RM million)	Expected timeframe for utilisation from the listing of the Rights Shares
(i)	Repayment of bank borrowings of our Group*	150.00	6 months
(ii)	Defray expenses relating to the Rights Issue^	6.00	Immediately
(iii)	Working capital~	39.57	6 months
TOTAL		195.57	

Notes:-

* *As at the LPD, the total bank borrowings of our Group amount to approximately RM1,002 million. Your Board proposes to repay approximately RM150 million of the outstanding bank borrowings of our Group. The total interest savings arising from the repayment of the outstanding bank borrowings is approximately RM8.25 million per annum based on the average interest rate of 5.5% per annum for our Group. The final repayment amount for the bank borrowings to be retired pursuant to the Rights Issue will be determined at a later date.*

^ *The expenses relating to the Rights Issue comprise, amongst others, the estimated professional fees, underwriting commission and fees payable to the relevant authorities, expenses to convene the EGM, printing, despatch and advertising expenses as well as other miscellaneous charges. If the actual expenses incurred are higher than budgeted, the deficit will be funded from the portion allocated for our Group's working capital. Conversely, any surplus of funds following payment of expenses will be utilised as working capital for our Group.*

~ *Any surplus proceeds remaining after the repayment of the bank borrowings of our Group and the expenses relating to the Rights Issue shall be used for the working capital needs of our Group. We envisage utilising approximately RM39.57 million from the gross proceeds to finance our Group's working capital in the following manner:-*

	Description	*Amount (RM million)*
(a)	*Operating expenses*	*15.97*
(b)	*Salaries*	*12.00*
(c)	*Trade Payments*	*12.00*
TOTAL		*39.57*

The above breakdown of the working capital is indicative in value and subject to revision from time to time by your Board in its absolute discretion.

The exact quantum of proceeds that may be raised by our Company from the exercise of the Warrants would depend upon the actual number of Warrants exercised as well as the final exercise price of the Warrants. In any event, our Company intends to utilise the proceeds arising from the exercise of the Warrants for repayment of borrowings and/or the working capital requirements of our Group in the future.

5. RISK FACTORS

In addition to the other information contained in this AP, you should carefully consider the following risk factors (which may not be exhaustive) before subscribing for or investing in the Rights Shares:-

5.1 Risks relating to the Rights Issue

5.1.1 Investment risk

The market price of KNM Shares is dependent on or influenced by, amongst others, prevailing stock market sentiments, the volatility of the stock market, movements in interest rates, our future profitability, the outlook of the industry in which we operate and our financial performance. In view of this, there can be no assurance that KNM Shares will trade at or above the First Call price of RM0.40 per Rights Share or the TERP upon or subsequent to the listing of the Rights Shares on the Main Market of Bursa Securities.

On the other hand, the market price of the Warrants may be influenced by, amongst others, the market priee of KNM Shares, the remaining Exercise Period and the volatility of KNM Shares. There can be no assurance that the Warrants will be "in-the-money" during their Exercise Period.

As the Warrants are new securities to be issued by our Company, there ean be no assurance that an active market for the Warrants will develop upon the listing of the Warrants on the Main Market of Bursa Securities, or if developed, will be sustained.

5.1.2 Delay in or abortion of the Rights Issue

There is a risk that there may be delay in the listing of the Rights Shares and/or the Warrants or the abortion thereof. These may happen upon the occurrence of, for example, the Underwriter(s) exercising their rights pursuant to the Underwriting Agreement to discharge themselves from their obligation under the Underwriting Agreement under certain circumstances, such as non-fulfillment of conditions precedent, breach of undertaking, warranties and representation on the part of our Company or if certain events, among others, changes in law or market conditions has materially affected the success of the Rights Issue.

In the event the Rights Issue is aborted, all the subscription/application monies received pursuant to the Rights Issue will be refunded to the subscribing Entitled Shareholders and/or their renouncee(s), if applicable, without interest, or with interest if the application monies are not refunded within fourteen (14) days after our Company become liable to repay, in accordance with the provisions of Section 243(2) of the CMSA.

We will exercise our best endeavor to ensure that the Rights Issue is successfully implemented. However, there can be no assurance that the above events will not occur and cause the delay or abortion of the Rights Issue.

5.1.3 Capital market risk

The performance of our local bourse is influenced by external factors such as the performance of regional and world bourses, flow of foreign funds and prices of certain commodities. Sentiments are also largely driven by internal factors such as the economic and political conditions of the country, interest rates, foreign exchange policies as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes on Bursa Securities, thus adding risk to the market price of KNM Shares and Warrants.

Notwithstanding this, it should be noted that our financial performance is not dependent on and has no direct correlation with the performance of the local as well as other bourses.

5.2 Risks relating to our Group

5.2.1 Business risk

Our Group is principally involved in the oil, gas, petrochemical, minerals processing and renewable energy industries. Our Group is not insulated from the general business risk as well as risks inherent in the various industries to which it provides services to. These may include shortages of equipment, materials, labour, rising cost due to inflation, labour disputes, adverse weather conditions, natural disasters, accidents and unforeseen circumstances and problems. Any of these could give rise to delays in the completion of the relevant project or cost overrun.

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

5.2.2 Industry competition

The oil, gas and petrochemical business in general is characterized by intense competition and competitive factors that vary by project and geographical region. KNM Group faces competition from local and overseas manufacturers, especially internationally recognized manufacturers of process equipment. There is competition amongst the manufacturers of process equipment within the markets in which our Group operates. Many of the competitors are large companies with international links that have substantial capital and marketing resources, and some of these competitors are larger than our Group and may have access to capital at a lower cost.

Although we have diversified away from the oil and gas industry, the business arising from the oil and gas industry is still a major contributor to our revenues. The competition from domestic and international oil and gas process equipment manufacturers depending on the type of equipment can be from average to intense. Although our Group has successfully competed in this segment over the years, there is no assurance that our Group will be at and/or maintain a consistent level of profitability in the future.

While our Group will continue to offer quality products and services through our research and development capabilities, there can be no assurance that our Group will be able to maintain its existing market share in the future.

Notwithstanding the above, our Group will continue to take the necessary steps to ensure quality products and services and develop innovative solutions to remain competitive.

5.2.3 Political and economic considerations

Our Group has operations locally as well as overseas and therefore is exposed to political, economic and regulatory risks in the countries in which we operate. As such, any adverse development in the political, economic and regulatory conditions in Malaysia as well as other countries in which we have operations could materially and adversely affect the financial performance and prospects of our Group. Political, economic and regulatory uncertainties include (but not limited to) risks of war, expropriation, nationalisation, the changes in government policies, changes in interest rates, inflation, legislation on taxation and currency exchange rules. In addition, countries could adopt new laws, policies or regulations, or change their interpretation of existing laws, policies or regulations.

While our Group continues to take measures to mitigate these risks including close monitoring of the relevant government's masterplan in respect of long term economic and development policies so that it can stay ahead as well as capitalise on any regulatory changes in the industries that our Group operates, there can be no assurance that any changes to the political, economic and regulatory factors will not have a material and adverse effect on the business and prospects of our Group.

5.2.4 Foreign exchange rate fluctuations

Our Group had operations in various countries and as such, is exposed to foreign exchange risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies that give rise to this risk are primarily RM, USD and Euro. There can be no assurance that fluctuations in foreign exchange rates will not have a material and adverse effect on our Group's financial performance.

Our management strives to constantly monitor the developments of our foreign currency exposure and will take the necessary steps to minimize their impact, if any are anticipated, through the use of natural hedge and financial instruments such as derivatives.

5.2.5 Adequacy of insurance coverage

Our Directors believe that our assets are adequately insured against unforeseen events such as fire and accidents by employees. Although we have taken the necessary measures to ensure that our business and assets are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate for the replacement cost of all our assets, business or any consequential costs arising therefrom. In addition, such insurance policies may no longer be available or the policy cost may significantly increase in the future. The materiality of this risk shall depend on the nature of the insurance contract that our Group has taken, the insured sum of the respective subject(s) and the cost of such policies.

5.2.6 Fire, energy crisis and other emergency risks

Our Group's manufacturing plants have to some extent flammable items which in the case of a fire breakout, our Group's operation may be affected to the extent of the warehouse or specific area of operation. To mitigate this risk, our Group maintains a strict safety policy in storing all flammable items in our manufacturing plants and employs twenty four (24) hours security within the plants. Our Group's manufactured products are made of steel which is not flammable. The flammable items used in our plants are mainly paint materials which are easily replaceable at short notice. Our Group has adequate insurance coverage for all its manufacturing plants to cover any risk of fire breakout.

Floods are the only natural risk that may affect our Group's operations although our plants are located in areas with no history of flooding or any other environmental risks. However, in the event of a flood, our Group is adequately covered under the Force Majeure clause in its contract with our Group's customers. Furthermore, our Group's plants are adequately designed with proper drainage in order to mitigate any flooding.

In respect of energy crisis i.e. electricity, our Group's operations will be affected since electricity is used in the manufacturing process. However, this may be overcome by using diesel generator sets as backup which our Group has previously used during a power failure or black-out. Our Group's operations will also be affected by a water crisis as water is used for the testing process at the end of manufacturing. Nevertheless, this may be overcome by obtaining water through water tankers as the amount of water needed is not large.

In respect of other emergency risks, such as riot and labour strikes, our Group is adequately covered under the Force Majeure clause in our contracts with our customers.

5.2.7 Management continuity

We believe that our continued success is dependent upon the abilities and continued efforts of our existing Directors and senior management and skilled personnel. We have an experienced management team and the continued success of our business and our ability to execute our business strategy in the future will depend largely on the efforts of our key personnel. Competition for such key personnel is intense in the industry and the loss of any of our key personnel may have an adverse effect on our business, financial condition, results of operations and prospects.

We recognize the importance of retaining these personnel and have hence implemented, amongst others, a management succession plan and offering competitive remuneration package to reward and retain these personnel.

5.3 Forward-looking statements

Certain statements in this AP are historical in nature and are not necessarily reflective of future results, which are subject to uncertainties. Similarly, other statements are forward-looking and based on our assumptions and estimates. Although we believe that these statements and assumptions are reasonable, they are subject to risks known and unknown, uncertainties and uncontrollable factors that may cause the actual performance and results to differ significantly from what is forecasted in this AP.

There can be no assurance that any of these forward looking statements can be realised. As a result, such forward-looking statements should not be interpreted as a warranty or representation by our Company or any other person that the plans and objectives of our companies will be accomplished.

6. INDUSTRY OVERVIEW AND PROSPECTS OF OUR GROUP

6.1 Overview and outlook of the economy

6.1.1 Overview and outlook of the global economy

The global economie environment remained challenging in Second Quarter of 2012 ("**2Q 12**"), due mainly to vulnerabilities in several key economies. Growth in the major advaneed economies slowed, weighed down by domestic fiscal adjustments, tight credit conditions and sluggish labour markets. Growth momentum in Asia had also moderated, particularly in the more open economies, reflecting the slowing external demand. Domestic demand in the region however was sustained, attributable to favourable macroeconomic fundamentals and policy support.

Going forward, the global economy faces increasing downside risks, emanating from the developments in several major economies. Policy uncertainty surrounding the European sovereign debt crisis and fiscal issues in the US are expected to weigh on market sentiments and growth prospects. Asia's growth will be affected by the weakening external environment amid modest growth in People Republic of China.

(Source: Economic and Financial Developments in Malaysia in the Second Quarter of 2012, Bank Negara Malaysia)

6.1.2 Overview and outlook of the Malaysian economy

The global economic environment remained challenging in the 2Q 12, amidst heightened vulnerabilities in several key economies. Growth in the major advanced economies was weighed down by policy and domestic structural concerns. In Asia, economic activity was affected by weaker external demand. In spite of this challenging environment, the Malaysian economy recorded a higher growth of 5.4% (First Quarter of 2012 ("**1Q 12**"): 4.9%), driven by stronger domestic demand, which rose by 13.8% (1Q 12: 9.7%). This was supported by robust growth in the expenditure of both the private and public sectors, while net exports moderated further due to weaker exports and higher imports. On the supply side, most major economic sectors continued to expand, led by the services, manufacturing and construction sectors.

Gross fixed capital formation recorded a stronger growth of 26.1% (1Q 12: 16.1%), amidst increased capital spending by both the private and public sectors. Private investment strengthened further, supported by investment in the domestic-oriented services sub-sectors, oil and gas and manufacturing industries. Expansion in public investment was driven by non-financial public enterprises' capital spending in the transportation, oil and gas and utilities sectors, as well as the Federal Government's development spending on transportation, trade and industry, public utilities and education.

Growth of private consumption registered a strong growth of 8.8% (1Q 12: 7.4%), supported by firm labour market conditions, robust income growth and improved consumer sentiment. In addition, Government initiatives such as financial assistance to the lower income households and FELDA settlers, as well as increases in the salaries and pensions of civil servants also supported the increase in spending. Public consumption increased by 9.4% (1Q 12: 7.3%), led by higher spending on emoluments and supplies and services.

For the Malaysian economy, the strong support provided by domestic demand, underpinned by activities in both the private and public sectors have ensured higher growth amidst the challenging global environment. This trend is expected to be sustained going forward, although downside risks emanating from external developments remain.

(Source: Economic and Financial Developments in Malaysia in the Second Quarter of 2012, Bank Negara Malaysia)

The Malaysian economy is expected to strengthen further and projected to grow at a faster rate of 4.5% - 5.5% in 2013. Growth will be supported by improving exports and strong domestic demand on the assumption that the global growth will pick up, especially during the second half of 2013. The growth projection is premised upon the expectation of an improvement in the resolution of the debt crisis in the euro area and stronger growth momentum in the economies of Malaysia's major trading partners. Domestic demand is expected to maintain its strong momentum driven by robust private investment and strong private consumption. Private sector activity will be supported by an accommodative monetary policy in an environment of low inflation coupled with a robust financial sector. Recovery in the external sector, particularly increasing external demand from regional economies and major trading partners will further provide the impetus for a private-led growth. The overall public expenditure is expected to increase, led by higher non-financial public enterprises' ("**NFPE**") capital investment which will further augment growth. This nominal GNI per capita is expected to increase 6.4% to RM 32,947 (2012: 4.4%; RM30,956). In terms of PPP, per capital income is expected to grow 4.4% to reach USD16,368 (2012: 3.2%; USD15,676).

Given the domestic economic activity is expected to strengthen further in 2013, inflation is expected to increase moderately, partly mitigated by further capacity expansion in the economy. The key supply side factors that will influence inflation, namely prices of energy and food commodities are expected to ease during the first half of 2013, but are likely to trend up during the second half of on the assumption that global growth continues to pick up pace. Hence, for 2013, the average inflation rate is estimated to be between 2% and 3%

(Source: Economic Report 2012/2013, Ministry of Finance Malaysia)

6.2 Overview and outlook of the industry

6.2.1 Overview and outlook of the global energy sector

Global investment in energy supply infrastructure of $38 trillion (in year-2010 dollars) is required over the period 2011 to 2035. Almost two-thirds of the total investment is in countries outside of the OECD. Oil and gas collectively account for almost $20 trillion, as both the need for upstream investment and the associated cost rise in the medium and long term. The power sector claims most of the remainder, with over 40% of this being for transmission and distribution networks.

The age of fossil fuels is far from over, but their dominance declines. Demand for all fuels rises, but the share of fossil fuels in global primary energy consumption falls slightly from 81% in 2010 to 75% in 2035; natural gas is the only fossil fuel to increase its share in the global mix over the period to 2035. In the power sector, renewable energy technologies, led by hydropower and wind, account for half of the new capacity installed to meet growing demand. The share of non-hydro renewables in power generation increases from 3% in 2009 to 15% in 2035, underpinned by annual subsidies to renewables that rise almost five-times to $180 billion. China and the European Union drive this expansion, providing nearly half of the growth.

(Source: World Energy Outlook, 2011 © OECD/IEA 2011)

6.2.2 Overview and outlook of the Malaysian energy sector

Value-added of the mining sector rebounded 1.3% (January – June 2011: -6.6%) after experiencing seven consecutive quarters of contraction. The sector is expected to grow 1.5% in 2012 underpinned by improvement in crude oil output and a moderate increase in natural gas during the second half of the year. During the first seven months of 2012, production of crude oil (including condensates) turned around by 1.9% to 577,144 barrels per day (**"bpd"**) (January – July 2011: -12.4%; 566,458 bpd) supported by output from new oil fields and efforts to rejuvenate matured oil fields in Peninsular Malaysia. In 2012, production of crude oil (including condensates) is targeted to increase 1.6% to 579,000 bpd (2011: -10.7%; 569,778 bpd) partly due to higher production from new oil fields at East Piatu and Sepat Oil in offshore Peninsular Malaysia.

Petroliam Nasional Berhad (**"PETRONAS"**) has intensified its exploration activities to increase domestic oil & gas reserves, resulting in the discovery of two new oil fields in offshore Peninsular Malaysia (Irong 6 and Bertam 2) as at end-June 2012. In line with the Government's incentives for the development and production of marginal oil fields, PETRONAS has signed several new Production Sharing Contracts involving offshore and deep-water explorations in Sabah and Sarawak to sustain production and increase the lifespan of the reserves. As at 1 January 2012, crude oil reserves stood at 5.95 billion barrels and are estimated to last 29 years (1 January 2011: 5.86 billion barrels; 25 years).

Output of natural gas declined 5.3% to 5,616 million standard cubic feet per day (**"mmscfd"**) during the first seven months of 2012 (January – July 2011: -0.1%; 5,933 mmscfd) mainly due to operational challenges. However, for 2012, production of natural gas is expected to expand 5.5% to 6,259 mmscfd (2011: 0.3%; 5,932 mmscfd) resulting from the increase in production capacity to meet growing domestic demand, particularly from power producers and petrochemical industries. As at end-June 2012, the discovery of six new gas fields in offshore Peninsular Malaysia, Sabah and Sarawak will further increase production of gas and reserves in Malaysia. In addition, the completion of the LNG Regasification Terminal in Melaka is expected to ensure a sufficient supply of gas to meet domestic demand in Peninsular Malaysia. Gas reserves stood at 92.1 trillion standard cubic feet as at 1 January 2012, sufficient to last 37 years (1 January 2011: 88.9 trillion standard cubic feet; 39 years).

During the first eight months of 2012, the average price of Malaysian crude oil Tapis Blend remained elevated at USD120 per barrel ("**pb**") (January – August 2011: USD118 pb). However, global oil prices were volatile due to geopolitical tensions in the early part of the year and the worsening euro area debt crisis. Escalating unrest in the Middle East has resulted in the benchmark Dated Brent trading at a six-month peak of USD127 pb in February 2012. However, as the euro area debt crisis took centre stage in May, global oil prices slumped with the price of Dated Brent declining to USD95 pb. Price of Tapis Blend was also volatile and moved to a high of USD134 pb in March 2012 and a low of USD95 pb in June. Moving forward, market sentiment will continue to be influenced by the escalation of Middle East tensions due to the sanctions on Iran and the prolonged euro area debt crisis, which will affect the supply and demand of crude oil. According to the International Energy Agency, global demand for crude oil was lower at 88.8 million bpd as a tend-June 2012 due to the weaker global economic outlook, while global supply was slightly higher at 90.8 million bpd. Tapis price is expected to soften during the second half of 2012 due to lower demand for crude oil following the slowdown in emerging economies. Notwithstanding the possible disruption in oil output due to geopolitical tensions in the Middle East, which could result in higher oil prices, Tapis price is forecast to average USD105 pb for 2012.

(Source: Economic Report 2012/2013, Ministry of Finance Malaysia)

The focus on oil and gas projects, arising from the Economic Transformation Programme, will create a more dynamic and progressive oil and gas industry in Malaysia. Malaysia companies will be able to partake with local and foreign investors to invest in new technologies, new products as well as create countless job opportunities as several of these petrochemical projects take off in the near future.

The Pengerang Integrated Petroleum Complex ("**PIPC**") is one big step in creating value to the downstream oil and gas value chain in Johor. Sited in Pengerang, it is one of the largest pieces of investments in Pengerang district and located on a single plot measuring about 8,100 hectares. The project will house oil refineries, naphtha crackers, petrochemical plants as well as a LNG import terminal and a regasification plant.

In PIPC, oil refining facilities will add value to imported crude oil via the Pengerang Independent Deepwater Petroleum Terminal ("**PIDPT**"). New high-value and high-demand products and by-products, such as polymers, pharmaceutical products and plastics, will be created from the refined feedstock. In creating these products, Malaysia's petrochemical complexes will be able to generate greater value and investments from its oil and gas sector.

As of June 2012, two major catalytic projects have been committed within the PIPC area. The RM5 billion PIDPT is a joint-venture between DIALOG Group of Malaysia, Royal Vopak of Netherlands and Johor State Secretary Incorporated. Construction of Phase 1 of the project has already started and is scheduled for completion by Q1 2014. The total storage capacity available at PIDPT is planned for five million cubic metres by the year 2020.

The second mega-project within PIPC is PETRONAS' RM60 billion Refinery And Petrochemical Integrated Development ("**RAPID**") Project. The RAPID project is expected to be commissioned by 2016. RAPID will have a 300,000 bbl. per day refining capacity while additional petrochemical plants will generate value to petroleum products produced in RAPID.

To ensure that various oil and gas projects within PIPC are managed and administered efficiently, a new state agency – the Johor Petroleum Development Corporation – was created as a one-stop information centre to assists investors, oil and gas players and the local community. Infrastructure and utilities in the district will also be upgraded to facilitate and cater to the future expansion needs of PIPC. These include construction of new roads, installing a comprehensive network of power, telecommunications and water supplies, upgrading roads to highways to facilitate movements of goods and services and a centralised management of industrial waste products from the complex.

(Source: Malaysia Petroleum Resources Corporation's, an agency under the Prime Minister's Department of Malaysia, website: www.mprc.gov.my/index.php/invest/pipc on 15 October 2012)

6.3 Prospects of our Group

While the global financial crisis from 2008 to 2009 has greatly affected our progress as a global force in the equipment manufacturing business, we remain confident of our future prospects with the recovery in oil and gas investments in recent times.

Our first quarter results for the FYE 31 December 2012 signalled some signs of recovery as our Group showed improvements in the said results mainly due to higher project progress recognition and better contribution margin. Our second quarter results for the FYE 31 December 2012 continued to be encouraging with our Asia and Oceanic segment recording slightly higher order intake for the first half of FYE 31 December 2012 compared to the first half of FYE 31 December 2011. We envisage this will improve our capacity utilization, thus contributing positively to our results in the second half of FYE 31 December 2012. Furthermore our existing order book will sustain the European segment of our Group to remain profitable for the remainder of FYE 31 December 2012. As at 31 July 2012, our Group has secured a total contract value of approximately RM5.1 billion of which more than 90% are non-domestic contracts.

PETRONAS and other investors have announced the RM120 billion oil, gas and petrochemical development in Johor, Malaysia which includes among others, RM60 billion RAPID project by PETRONAS. KNM, being among the largest process equipment manufacturer in Malaysia with full product range capability, stands to benefit on the upcoming domestic market for the next five years. Currently engineering firms have been engaged to perform the Front End Engineering Design for RAPID and the process equipment contracts for which our Group is targeting to bid, is anticipated to be awarded in batches starting in mid-2013.

Despite the challenging global economic environment, your Board is taking measures to implement and execute change in order to bring our Company back to profitability and to ensure that it is sustained in the long run. Among the initiatives currently being undertaken are as follows:-

(a) strengthening our Group's core process equipment business through the rationalisation of our Group's fabrication facilities worldwide;

(b) upgrading our fabrication facilities to become "centres of excellence" to better serve the needs of our Group's global customer base;

(c) strengthening our internal processes and structure to better support our Group's global operations; and

(d) maximising the value of potential product synergies that exist amongst all our operating companies.

In this respect, the proceeds from the Rights Issue will enable us to optimize our Group's financial structure and facilitate our Group's plan for transformation as well as better position our Group for any opportunity arising from the recent recovery in the oil and gas industry as well as renewable energy sector.

7. EFFECTS OF THE RIGHTS ISSUE

For illustrative purposes only, the effects of the Rights Issue take into account the following:-

(a) issued and paid-up share capital of KNM as at the LPD of RM1,001,092,593 comprising 1,001,092,593 KNM Shares; and

(b) 23,251,275 treasury shares as at the LPD.

7.1 Share capital

The proforma effects of the Rights Issue on the issued and paid-up share capital of KNM are as follows:-

	No. of KNM Shares	RM
As at the LPD	^977,841,318	977,841,318
To be issued pursuant to the Rights Issue	488,920,659	488,920,659
Enlarged issued and paid-up share capital after the Rights Issue	1,466,761,977	1,466,761,977
To bc issued assuming full exercise of the Warrants	488,920,659	488,920,659
Enlarged issued and paid-up share capital	**1,955,682,636**	**1,955,682,636**

Note:-

^ *Excludes 23,251,275 KNM Shares held as treasury shares*

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7.2 NA per KNM Share and gearing

Based on the audited consolidated statement of financial position of KNM as at 31 December 2011 and on the assumption that the Rights Issue had been effected on that date, the proforma effect of the Rights Issue on the NA per KNM Share and gearing of our Group are as follows:-

	(I) Audited as at 31 December 2011	(II) After (I) and after adjusting for treasury shares acquired from 1 January 2012 up to the LPD	(III) After (II) and the Rights Issue	After (III) and assuming full exercise of the Warrants
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Share capital	1,001,093	1,001,093	1,475,346	1,978,935
Share premium	319,426	319,426	20,073[(b)]	20,073
Treasury shares	(53,371)	(53,381)	(53,381)	(53,381)
Revaluation reserve	40,231	40,231	40,231	40,231
Translation reserve	(506,901)	(506,901)	(506,901)	(506,901)
Hedging reserve	(5,172)	(5,172)	(5,172)	(5,172)
Fair value reserve	30	30	30	30
Warrant reserve	-	-	14,668[(c)]	-
Retained earnings	809,719	809,719	809,719	809,719
Total equity attributable to owners of our Company/NA	1,605,055	1,605,045	1,794,613	2,283,534
Non-controlling interests	7,021	7,021	7,021	7,021
Total equity	1,612,076	1,612,066	1,801,634	2,290,555
No. of KNM Shares ('000)	977,851[(a)]	977,841	1,466,762	1,955,683
NA per KNM Share (RM)	1.64	1.64	1.22	1.17
Total borrowings	1,144,284	1,144,284	994,284[(d)]	644,284[(e)]
Gearing (times)[(f)]	0.71	0.71	0.55	0.28

Notes:-

(a) *Excludes 23,241,275 KNM Shares held as treasury shares*

(b) *After capitalisation for the Second Call of approximately RM293.35 million and the effects of the issuance of the Warrants and after taking into account the estimated expenses relating to the Rights Issue of RM6.00 million and the effects of the issuance of the Warrants*

(c) *After taking into consideration the value assigned to the Warrants of RM0.03 each which was arrived at based on the Trinomial pricing model for the fair value of the Warrants. Please refer to Appendix III of this AP for further details on the accounting treatment of the Warrants*

(d) *Assuming that RM150.00 million of the proceeds of the Rights Issue is being utilised to repay borrowings*

(e) *Assuming that RM350.00 million of the proceeds from exercise of the Warrants is being utilised to repay borrowings*

(f) *The gearing ratio is calculated by dividing total borrowings over total equity*

7.3 Earnings and EPS

The Rights Issue is not expected to have any material effect on the earnings of our Group for the FYE 31 December 2012 since the Rights Issue is only expected to be completed in the 4th quarter of 2012 and the proceeds from the Rights Issue is expected to be utilised within 6 months from the completion date of the Rights Issue. Nevertheless the EPS of our Group may be correspondingly reduced as a result of the increase in the number of KNM Shares pursuant to the Rights Issue.

The Rights Issue is expected to contribute positively to the future earnings of our Group when the benefits arising from the utilisation of proceeds raised from the Rights Issue materialise.

The potential effect of the exercise of the Warrants on the future earnings and EPS of our Group will depend upon, amongst others, the number of Warrants exercised at any point in time and the utilisation of proceeds arising from the exercise of the Warrants. Although the exercise of Warrants into new KNM Shares is expected to immediately dilute the EPS of our Group as a result of the increase in our Company's issued and paid-up share capital, over time, the utilisation of proceeds raised from the exercise of Warrants is expected to contribute positively to the future earnings of our Group.

8. WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

8.1 Working capital

Your Board is of the opinion that based on our Group's available banking facilities, our Group's cash balance, internally-generated funds from our operations as well as the proceeds to be raised from the Rights Issue our Group will have adequate working capital for a period of 12 months from the date of this AP to meet our present and foreseeable future requirements.

8.2 Borrowings

As at the LPD, our Group's total borrowings (all of which are interest bearing) are as follows:-

	Short-term borrowings (RM'000)	Long-term borrowings (RM'000)	Total borrowings (RM'000)
Borrowings (secured)	104,561	216,592	321,153
Borrowings (unsecured)	23,718	34,830	58,548
ICP/IMTN	190,000	-	190,000
Bank Overdraft	15,888	-	15,888
Bill Payable	195,255	-	195,255
Hire Purchase	4,879	12,082	16,961
Revolving credit	204,230	-	204,230
	738,531	**263,504**	**1,002,035**

The figures above are also inclusive of the following borrowings which are denominated in various currencies, but expressed in RM terms:-

Currency	Amount of debt denominated in foreign currencies (million)	Exchange rate*	Amount of debt denominated in RM (RM million)
RMB	26.60	0.4922	13.09
EUR	39.08	3.9306	153.61
CAD	2.51	3.1671	7.95
BRL	3.35	1.5395	5.16

Note:-

* *Exchange rates are estimated as at LPD.*

There has not been any default on payment of either interest and/or principal sums in respect of any borrowings throughout the past FYE 31 December 2011 and the subsequent financial period up to the LPD.

8.3 Contingent liabilities

Save as disclosed below and the material litigation as disclosed in Section 4 of Appendix VII, your Board is not aware of any contingent liabilities incurred or known to be incurred by our Group, which in the opinion of your Board, upon becoming enforceable may substantially affect our Group's ability to meet our obligations as and when they fall due as at the LPD:-

(a) guarantees of approximately RM1,264 million provided by our Company to various parties for borrowings of our subsidiaries; and

(b) tax matters of our Group under appeal amounting to EUR1.94 million in respect of a foreign subsidiary.

8.4 Material commitments

Save as disclosed below, your Board is not aware of any material capital commitment incurred or known to be incurred by our Company or our subsidiaries which upon becoming enforceable may have a material impact on the financial position of our Group as at the LPD:-

	Approved and contracted for	**Approved but not contracted for**
	(RM'000)	**(RM'000)**
Property, plant and equipment	54,050	47,673
Investment	108,018	10,047
	162,068	57,720

The material commitment will be financed through our Group's internally-generated funds.

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9. SHAREHOLDER'S UNDERTAKING AND UNDERWRITING ARRANGEMENT

9.1 Shareholders' undertaking

Inter Merger, ILSE, GSL and Tegas Klasik had on 27 July 2012 and supplemented by a letter dated 16 August 2012 provided unconditional and irrevocable written undertakings to subscribe in full for their respective entitlements under the Rights Issue as at the Entitlement Date (all undertakings to be collectively referred to as "**Undertakings**").

On 28 September 2012, Inter Merger had provided an additional undertaking to subscribe for an additional 48,800,000 Rights Shares via excess application to the extent that such Rights Shares are not taken up or are not validly taken up by other entitled shareholders and/or their renouncee(s) under the Rights Issue ("**Additional Undertaking**"). For avoidance of doubt, the Additional Undertaking will only take effect via excess application in the event the Entitled Shareholders other than ILSE, GSL and Tegas Klasik do not subscribe to the Rights Shares.

The total number of Rights Shares to be subscribed by Inter Merger, ILSE, GSL and Tegas Klasik pursuant to the Undertakings based on their shareholdings in our Company as at the LPD and the Additional Undertaking are as follows:-

	As at the LPD		**Entitlement under the Rights Issue**	
	No. of KNM Shares	**%^**	**No. of Rights Shares**	**%***
Inter Merger	204,956,833	20.96%	102,478,416	20.96%
ILSE	12,426,186	1.27%	6,213,093	1.27%
GSL	4,197,500	0.43%	2,098,750	0.43%
Tegas Klasik	17,960,727	1.84%	8,980,363	1.84%
Total	**239,541,246**	**24.50%**	**119,770,622**	**24.50%**

	Rights Shares to be subscribed pursuant to the Undertakings and Additional Undertaking	
	No. of Rights Shares	**%***
Inter Merger	151,278,416	30.94%
ILSE	6,213,093	1.27%
GSL	2,098,750	0.43%
Tegas Klasik	8,980,363	1.84%
Total	**168,570,622**	**34.48%**

Note:-

^ *Based on total number of KNM Shares in issue as at the LPD and excluding the 23,251,275 KNM Shares held as treasury shares*

* *Based on total Rights Shares*

9.2 Underwriting arrangements and salient terms of the Underwriting Agreement

Pursuant to the Underwriting Agreement, the Underwriters have agreed to underwrite up to 320,350,037 Rights Shares ("**Underwritten Shares**"), representing approximately 65.52% of the total Rights Shares to be issued pursuant to the Rights Issue. The remaining 168,570,622 Rights Shares will fall within the scope of the Undertakings, pursuant to which Inter Merger, ILSE, GSL and Tegas Klasik have each irrevocably undertaken to subscribe.

The underwriting commission payable by our Company to each Underwriter is 2.5% of the value of the Underwritten Shares agreed to be underwritten by each Underwriter, computed on the basis of the First Call price of RM0.40 per Underwritten Share. RHB Investment Bank as Managing Underwriter is further entitled to be paid by our Company with an additional 0.5% of the value of the Underwritten Shares.

The proportions and number of Underwritten Shares underwritten by each Underwriter is as follows:

Underwriter	Agreed Proportion of Underwritten Shares	Maximum No. of Underwritten Shares
RHB Investment Bank	37.46%	120,000,000
TA Securities Holdings Berhad	35.12%	112,500,000
Mercury Securities Sdn Bhd	19.51%	62,500,000
OSK Investment Bank Berhad	4.79%	15,350,037
M&A Securities Sdn Bhd	3.12%	10,000,000
Total	**100%**	**320,350,037**

By the Underwriting Agreement, certain conditions precedent will need to be fulfilled before the Closing Date (i.e. the last date and time specified in this Abridged Prospectus for the acceptance and payment of the Rights Shares or any extended date mutually agreed by our Company and the Underwriters) before the obligations of the parties are unconditional). Such conditions precedent include the performance by the parties who have given the Undertakings, the fulfilment to the reasonable satisfaction of RHB Investment Bank of any conditions imposed by Bursa Securities and SC and there not having been any adverse change of or in the condition (financial or otherwise) of our Company from that set forth in this Abridged Prospectus which is material in the context of the Rights Issue or the occurrence of any event rendering untrue or incorrect to a material extent, any representation and warranty contained in the Underwriting Agreement.

If any condition precedent is not satisfied by the Closing Date, the majority Underwriters shall have the right to terminate the Underwriting Agreement and upon such termination, our Company is obliged to pay each Underwriter, Broken Funding Costs (i.e. 50% of the underwriting commission payable to an Underwriter).

The majority Underwriters will also have a right to terminate the Underwriting Agreement if certain events ("**Termination Events**") have occurred, including various insolvency related events impacting our Company or breaches by our Company of its representations, warranties and undertakings, force majeure events or a change in national or international monetary, financial, political or economic conditions, or in exchange control which in the opinion of the majority Underwriters may or is likely to have a material adverse effect on the business or the operation of our Company or the success of the Rights Issue.

Upon such termination, our Company will be obliged to (i) pay or return to the Underwriters all moneys paid by and due to the Underwriters together with interest thereon (ii) pay the Underwriters any costs and expenses incurred by the Underwriters (iii) pay the Underwriters either (A) their respective underwriting commission if the Termination Event is within our Company's control or if it is a breach by our Company or it is an insolvency related events impacting our Company or (B) Broken Funding Costs if underwriting commission is not payable. No Broken Funding Costs is payable by our Company to the Underwriters if the termination of the Underwriting Agreement is wholly due to the default of the Underwriters.

A Rights Issue account will be opened and jointly operated by RHB Investment Bank and our Company for the sole purpose of crediting all acceptance and application monies received by our Company from the Share Registrar, Bursa Depository or any subscriber for the Rights Shares.

10. PROCEDURES FOR ACCEPTANCE, PAYMENT, SALE/TRANSFER AND EXCESS APPLICATION

If you are an Entitled Shareholder, your CDS Account will be duly credited with the number of Provisional Rights Shares with Warrants which you are entitled to subscribe for in full or in part under the terms of the Rights Issues. You will find enclosed with this AP, the NPA notifying you of the crediting of such Provisional Rights Shares with Warrants into your CDS Account and the RSF to enable you to subscribe for such Rights Shares with Warrants that you have been provisionally allotted as well as to apply for any Excess Rights Shares with Warrants if you choose to do so. This AP and the RSF are also available on Bursa Securities' website (www.bursamalaysia.com).

FULL PROCEDURES FOR THE ACCEPTANCE, PAYMENT, SELL/TRANSFER AND EXCESS RIGHTS SHARES WITH WARRANTS APPLICATION ARE SET OUT IN THIS SECTION AND THE ACCOMPANYING RSF. YOU ARE ADVISED TO READ THIS AP AND THE ACCOMPANYING RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN CAREFULLY. THE RSF MUST NOT BE CIRCULATED UNLESS ACCOMPANIED BY THIS AP.

10.1 Acceptance and payment

If you wish to accept all or part of your entitlement to the Provisional Rights Shares with Warrants, please complete Parts I and III of the RSF in accordance with the notes and instructions contained in the RSF. Acceptances which do not strictly conform to the terms of this AP or the RSF or the notes and instructions contained therein or which are illegible may not be accepted at the absolute discretion of your Board.

Each completed and signed RSF together with the relevant payment must be delivered either by ordinary post, courier or delivery by hand in the official envelope provided (at your own risk) to our Share Registrar at the following address:-

FOR DELIVERY BY HAND AND/OR COURIER

Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Tel: +603 - 7841 8000
Helpdesk Tel: +603 - 7849 0777
Fax: +603 - 7841 8151 / 8152

FOR ORDINARY POST

Peti Surat 9150
Pejabat Pos Kelana Jaya
46785 Petaling Jaya
Selangor Darul Ehsan,
Malaysia

so as to arrive not later than **5.00 p.m.** on **5 November 2012**, being the last date and time for acceptance and payment, or such later date and time as your Board may decide in its absolute discrction and announce not less than 2 Market Days before the stipulated date and time.

If you lose, misplace or for any reasons require another copy of the RSF, you may obtain additional copies of the RSF from all Malaysian stockbroking companies, Bursa Securities' website (www.bursamalaysia.com), our Share Registrar at the address stated above or our Registered Office at the following address: -

15, Jalan Dagang SB4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan, Malaysia

Tel. No.: (603) 8946 3000
Fax. No.: (603) 8943 4781

Only 1 RSF can be used for acceptance of the Provisional Rights Shares with Warrants standing to the credit of 1 CDS Account. Separate RSFs must be used for the acceptance of the Provisional Rights Shares with Warrants standing to the credit of more than 1 CDS Account. If successful, the Rights Shares with Warrants accepted by you will be credited into the respective CDS Accounts where the Provisional Rights Shares with Warrants are standing to the credit.

If you do not wish to accept the Provisional Rights Shares with Warrants in full, you are entitled to accept part of your entitlement to the Provisional Rights Shares with Warrants. The minimum number of the Provisional Rights Shares with Warrants that can be accepted is 1 Rights Share with 1 Warrant. You should take note that a trading board lot comprises 100 Rights Shares and 100 Warrants respectively.

Each completed RSF must be accompanied by the appropriate remittance in RM for the full amount payable for the Rights Shares with Warrants accepted in the form of banker's draft(s), cashier's order(s), money order(s) or postal order(s) drawn on a bank or post office in Malaysia and must be made payable to "**KNM RIGHTS ISSUE A/C**" and crossed "**ACCOUNT PAYEE ONLY**" and endorsed on the reverse side with your name, contact number and address in block letters and your CDS Account number. The payment must be made in the exact amount. Any excess or insufficient payment and other than in the manner stated in this AP may be rejected at the absolute discretion of your Board. Cheques or any other mode of payments not prescribed herein are not acceptable.

NO ACKNOWLEDGEMENT WILL BE ISSUED BY OUR COMPANY OR OUR SHARE REGISTRAR FOR THE RECEIPT OF THE RSF OR THE APPLICATION MONIES IN RESPECT OF THE ACCEPTANCE OF THE PROVISIONAL RIGHTS SHARES WITH WARRANTS. PROOF OF TIME OF POSTAGE SHALL NOT CONSTITUTE PROOF OF TIME OF RECEIPT BY OUR SHARE REGISTRAR. HOWEVER, IF YOUR APPLICATION IS SUCCESSFUL, THE RIGHTS SHARES AND WARRANTS SHALL BE CREDITED INTO YOUR CDS ACCOUNT AND A NOTICE OF ALLOTMENT WILL BE DESPATCHED TO YOU BY ORDINARY POST TO THE ADDRESS AS STATED IN OUR RECORD OF DEPOSITORS AT YOUR OWN RISK WITHIN 8 MARKET DAYS FROM THE LAST DATE AND TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE PROVISIONAL RIGHTS SHARES WITH WARRANTS OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

If the acceptance of and payment for the Provisional Rights Shares with Warrants allotted to you (whether in full or in part, as the case may be) are not received by our Share Registrar by **5.00 p.m.** on **5 November 2012,** being the last date and time for acceptance and payment, or such later date and time as your Board may decide in its absolute discretion and announce not less than 2 Market Days before the stipulated date and time, the provisional entitlement to you will be deemed to have been declined and will be cancelled. Such Rights Shares with Warrants not taken up shall first be made available for application for Excess Rights Shares with Warrants in the manner as set out in Section 10.3 of this AP and if undersubscribed, any remaining Rights Shares with Warrants will be taken up by the Underwriters.

APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT. YOUR BOARD RESERVES THE RIGHT NOT TO ACCEPT ANY APPLICATION OR TO ACCEPT ANY APPLICATION IN PART ONLY WITHOUT ASSIGNING ANY REASON THEREOF.

YOU SHOULD NOTE THAT ALL RSF AND REMITTANCES LODGED WITH OUR SHARE REGISTRAR WILL BE IRREVOCABLE AND CANNOT BE SUBSEQUENTLY WITHDRAWN. IN RESPECT OF UNSUCCESSFUL OR PARTIALLY ACCEPTED APPLICATIONS, THE FULL AMOUNT OR THE SURPLUS APPLICATION MONIES, AS THE CASE MAY BE, WILL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPATCHED TO YOU BY ORDINARY POST TO THE ADDRESS AS STATED IN OUR RECORD OF DEPOSITORS AT YOUR OWN RISK WITHIN 15 MARKET DAYS FROM THE LAST DATE AND TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE PROVISIONAL RIGHTS SHARES WITH WARRANTS.

10.2 Sale/transfer of Provisional Rights Shares with Warrants

As an Entitled Shareholder, you may wish to sell or transfer all or part of your entitlement to the Provisional Rights Shares with Warrants to 1 or more than 1 person immediately through your stockbroker(s) without first having to request for a split of the Provisional Rights Shares with Warrants standing to the credit of your CDS Account(s).

To sell/transfer all or part of your entitlement to the Provisional Rights Shares with Warrants, you may sell such entitlement on the open market or transfer such entitlement to such person(s) as may be allowed pursuant to the Rules of Bursa Depository for the period up to the last date and time for the sale/transfer of the Provisional Rights Shares with Warrants.

In selling/transferring all or part of your entitlement to the Provisional Rights Shares with Warrants, you need not deliver any document, including the RSF, to your stockbroker(s). You are however, advised to ensure that there is sufficient Provisional Rights Shares with Warrants standing to the credit of your CDS Account(s) for settlement of the sale/transfer.

Purchaser(s) of the Provisional Rights Shares with Warrants may obtain a copy of this AP and the RSF from all Malaysian stockbroking companies, Bursa Securities' website (www.bursamalaysia.com), our Registered Office or our Share Registrar.

If you have sold/transferred only part of your entitlement to the Provisional Rights Shares with Warrants, you may still accept the balance of your entitlement to the Provisional Rights Shares with Warrants by completing Parts I and III of the RSF and forwarding the RSF together with the appropriate remittance for the full amount payable for the balance of the Rights Shares with Warrants accepted to our Share Registrar in accordance with the instructions as set out in Section 10.1 of this AP.

YOU SHOULD NOTE THAT ALL RSF AND REMITTANCES LODGED WITH OUR SHARE REGISTRAR WILL BE IRREVOCABLE AND CANNOT BE SUBSEQUENTLY WITHDRAWN.

10.3 Application for Excess Rights Shares with Warrants

If you wish to apply for additional Rights Shares with Warrants in excess of those provisionally allotted to you, you may do so by completing Part II of the RSF (in addition to Parts I and III of the RSF) and forwarding the RSF, together with a **separate** remittance for the full amount payable in respect of the Excess Rights Shares with Warrants applied for to our Share Registrar so as to arrive not later than **5.00 p.m.** on **5 November 2012**, being the last date and time for the application and payment, or such later date and time as your Board may decide in its absolute discretion and announce not less than 2 Market Days before the stipulated date and time.

Payment for the Excess Rights Shares with Warrants applied for shall be made in the same manner described in Section 10.1 of this AP except that the banker's draft(s), cashier's order(s), money order(s) or postal order(s) drawn on a bank or post office in Malaysia and must be made payable to "**KNM EXCESS SHARES A/C**" and crossed "**ACCOUNT PAYEE ONLY**" and endorsed on the reverse side with your name, contact number and address in block letters and your CDS Account number. The payment must be made in the exact amount. Any excess or insufficient payment and other than in the manner stated in this AP may be rejected at the absolute discretion of your Board. Cheques or any other mode of payments not prescribed herein are not acceptable.

Your Board will allot the Excess Rights Shares with Warrants, if any, subject always to such allocation being made on a fair and equitable basis, and that the intention of your Board set out in (i) to (iii) below are achieved on such basis as it may deem fit or expedient and in the best interest of our Company. The basis for the allotment of the Excess Rights Shares with Warrants is as follows:-

(i) firstly, to minimise the incidence of odd lots;

(ii) secondly, for allocation to Entitled Shareholders who have applied for the Excess Rights Shares with Warrants on a pro-rata basis and in board lot, calculated based on their respective shareholdings as at the Entitlement Date; and

(iii) thirdly, for allocation to Entitled Shareholders and/or their renouncee(s) (if applicable) who have applied for the Excess Rights Shares with Warrants on a pro-rata basis, calculated based on the quantum of their respective Excess Rights Shares with Warrants application.

Nevertheless, your Board reserves the right to allot the Excess Rights Shares with Warrants in respect of any Excess Rights Shares with Warrants application, in part only, without assigning any reason thereof.

NO ACKNOWLEDGEMENT WILL BE ISSUED BY OUR COMPANY OR OUR SHARE REGISTRAR FOR THE RECEIPT OF THE EXCESS RIGHTS SHARES WITH WARRANTS APPLICATION OR THE APPLICATION MONIES IN RESPECT THEREOF. PROOF OF TIME OF POSTAGE SHALL NOT CONSTITUTE PROOF OF TIME OF RECEIPT BY OUR SHARE REGISTRAR. HOWEVER, IF YOUR APPLICATION IS SUCCESSFUL, THE RIGHTS SHARES AND WARRANTS SHALL BE CREDITED INTO YOUR CDS ACCOUNT AND A NOTICE OF ALLOTMENT WILL BE DESPATCHED TO YOU BY ORDINARY POST TO THE ADDRESS AS STATED IN OUR RECORD OF DEPOSITORS AT YOUR OWN RISK WITHIN 8 MARKET DAYS FROM THE LAST DATE AND TIME FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES WITH WARRANTS OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

YOU SHOULD NOTE THAT ALL RSF AND REMITTANCES LODGED WITH OUR SHARE REGISTRAR WILL BE IRREVOCABLE AND CANNOT BE SUBSEQUENTLY WITHDRAWN. IN RESPECT OF UNSUCCESSFUL OR PARTIALLY SUCCESSFUL EXCESS RIGHTS SHARES WITH WARRANTS APPLICATIONS, THE FULL AMOUNT OR THE SURPLUS APPLICATION MONIES, AS THE CASE MAY BE, WILL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPATCHED TO YOU BY ORDINARY POST TO THE ADDRESS AS STATED IN OUR RECORD OF DEPOSITORS AT YOUR OWN RISK WITHIN 15 MARKET DAYS FROM THE LAST DATE AND TIME FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES WITH WARRANTS.

10.4 Acceptance by renouncees

As a renouncee, the procedures for acceptanee, selling/transferring of the Provisional Rights Shares with Warrants, applying for the Excess Rights Shares with Warrants and/or payment is the same as that which is applicable to Entitled Shareholders as described in Sections 10.1 to 10.3 of this AP.

Renouncees may obtain a copy of this AP and the RSF from all Malaysian stockbroking companies, Bursa Securities' website (www.bursamalaysia.com), our Registered Office or our Share Registrar.

10.5 CDS Account

Bursa Securities has already prescribed the KNM Shares listed on the Main Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Provisional Rights Shares and Warrants are prescribed securities and as such, all dealings in the Provisional Rights Shares with Warrants will be by book entry through CDS Accounts and will be governed by the SICDA and the Rules of Bursa Depository. You must have a valid and subsisting CDS Account in order to subseribe for the Rights Shares with Warrants.

The acceptance of the Provisional Rights Shares with Warrants by you or any purchaser of the rights thereof shall mean consent to receiving sueh Rights Shares and Warrants as prescribed securities which will be credited directly into the respective CDS Accounts.

All Excess Rights Shares and Warrants allotted shall be credited directly into the CDS Accounts of the successful applicants.

10.6 Foreign shareholders

This Abridged Prospectus together with the accompanying documents issued in connection with the Rights Issue are not and will not be made to eomply with the laws of any countries or jurisdictions other than Malaysia, and have not and will not be registered under any applicable securities legislation of any eountries or jurisdictions other than Malaysia, and the Rights Issue will not be offered for purchase or subscription in any countries or jurisdictions other than Malaysia.

Accordingly, this Abridged Prospectus together with the accompanying documents will only be sent to Entitled Shareholders who have a registered address or an address for service in Malaysia as registered in our Record of Depositors as at the Entitlement Date. Foreign Addressed Shareholders who wish to provide Malaysia addresses should inform their respective stockbrokers to effect the change of address prior to the Entitlement Date. Alternatively, such Foreign Addressed Shareholders may collect the Abridged Prospectus from our share registrar who shall be entitled to request for such evidence as they deem necessary to satisfy themselves as to the identity and authority of the person collecting the Abridged Prospectus.

Our Company will not make or be bound to make any enquiry as to whether the Entitled Shareholders have a registered address other than as stated in our Record of Depositors as at the Entitlement Date and will not accept or be deemed to accept any liability whether or not any enquiry or investigation is made in connection therewith.

Foreign Addressed Shareholders may only exercise their rights in respect of the Rights Issue to the extent that it would be lawful to do so, and our Company and/or RHB Investment Bank would not, in connection with the Rights Issue, be in breach of the laws of any country or jurisdiction which the Foreign Addressed Shareholders and/or their renouncees might be subject to.

Foreign Addressed Shareholders will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such foreign country or jurisdiction and our Company shall be entitled to be fully indemnified and held harmless by such foreign applicants for any issue, transfer or any other taxes or duties as such person may be required to pay. They will have no claims whatsoever against our Company, our share registrar and/or RHB Investment Bank in respect of their rights or entitlements under the Rights Issue. Such applicants should also consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to exercise their rights in respect of the Rights Issue.

Foreign Addressed Shareholders shall be solely responsible to seek advice as to the laws of any jurisdiction to which they may be subject, and participation by the Foreign Addressed Shareholders in the Rights Issue shall be on the basis of a warranty by them that they may lawfully so participate without our Company and/or RHB Investment Bank being in breach of the laws of any jurisdiction.

Neither our Company, RHB Investment Bank nor any other advisers to the Rights Issue shall accept any responsibility or liability in the event that any acceptance of a Foreign Addressed Shareholder of his/her rights in respect of the Rights Issue is or shall become illegal, unenforceable, voidable or void in any country or jurisdiction.

Our Company reserves the right in our absolute discretion to treat any acceptance as being invalid if we believe or have reason to believe that such acceptance may violate applicable legal or regulatory requirements.

11. TERMS AND CONDITIONS

The Rights Issue is governed by the terms and conditions set out in the Documents.

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12. FURTHER INFORMATION

You are advised to refer to the attached appendices for further information.

Yours faithfully,
For and on behalf of the Board of
KNM GROUP BERHAD

IR LEE SWEE ENG
Executive Chairman /Chief Executive Officer

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CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION IN RESPECT OF THE RIGHTS ISSUE PASSED AT OUR EGM HELD ON 20 SEPTEMBER 2012

KNM GROUP BERHAD
(Company No. 521348-H)
Incorporated in Malaysia

Certified true copy of extract of the Minutes of Extraordinary General Meeting duly convened and held at Parameswara Room, Level 2, Mines Wellness Hotel, Jalan Dulang, Mines Resort City, 43300 Seri Kembangan, Selangor, on Thursday, 20 September 2012 at 10.00 a.m.

We hereby certify that the following resolutions have been duly approved by the shareholders of the Company at the said Extraordinary General Meeting held on 20 September 2012 and as at the date hereof the said resolutions remain in full force and effect and that they have not been withdrawn or amended.

(1) SPECIAL RESOLUTION 1 – PROPOSED RENOUNCEABLE TWO-CALL RIGHTS ISSUE WITH DETACHABLE WARRANTS EXERCISE
(2) SPECIAL RESOLUTION 2 – PROPOSED AMENDMENTS TO THE COMPANY'S MEMORANDUM & ARTICLES OF ASSOCIATION OF KNM
(3) ORDINARY RESOLUTION – PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL OF KNM

Three resolutions had been tabled before the shareholders at this EGM:-

4.1 As a Special Resolution 1

The Proposed Renounceable Two-Call Rights Issue with Detachable Warrants Exercise involve the issuance of 488,920,659 new ordinary shares of RM1.00 each in KNM Group Berhad ("KNM") ("KNM Shares") ("Rights Shares") at an indicative issue price of RM1.00 for each Rights Share on the basis of one (1) Rights Share for every two (2) existing KNM Shares held together with 488,920,659 detachable warrants ("Warrants") on the basis of one (1) Warrant for every one (1) Rights Shares subscribed by the Entitled Shareholders;

The full text of the approved resolution read as follows:-

SPECIAL RESOLUTION 1 – PROPOSED RENOUNCEABLE TWO-CALL RIGHTS ISSUE OF 488,920,659 NEW ORDINARY SHARES OF RM1.00 EACH IN KNM GROUP BERHAD ("KNM") ("KNM SHARES") ("RIGHTS SHARES") AT AN INDICATIVE ISSUE PRICE OF RM1.00 FOR EACH RIGHTS SHARE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY TWO (2) EXISTING KNM SHARES HELD AS AT AN ENTITLEMENT DATE TO BE DETERMINED LATER TOGETHER WITH 488,920,659 DETACHABLE WARRANTS ("WARRANTS") ON THE BASIS OF ONE (1) WARRANT FOR EVERY ONE (1) RIGHTS SHARE SUBSCRIBED FOR ("PROPOSED RIGHTS ISSUE");

"**RESOLVED THAT**, subject to the passing of Special Resolution 2 and Ordinary Resolution and the approvals of the relevant authorities (where required) being obtained, the Board of Directors of the Company ("**Board**") be and is hereby authorised to provisionally allot by way of a renounceable rights issue of 488,920,659 Rights Shares at an indicative issue price of RM1.00 for each Rights Share together with 488,920,659 detachable Warrants to the shareholders of the Company whose names appear in the Record of Depositors of the Company at 5.00 p.m. on an entitlement date to be determined by the Board ("**Entitled Shareholders**"), on the basis of one (1) Rights Shares for every two (2) existing KNM Shares held;

THAT the share premium account of the Company be reduced by an amount as determined by the Board in accordance with the Circular to Shareholders dated 24 August 2012 but subject to the authorities and limitations set forth in this Special Resolution 1, for the purposes of paying up the unpaid balance if any, on the Rights Shares after the Company's receipt of the first call price on the Rights Shares (in accordance with the Circular to Shareholders dated 24 August 2012) ("**Proposed Capitalisation**");

THAT the Rights Shares shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing KNM Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment of the Rights Shares;

THAT any Rights Shares which are not validly taken up or which are not allotted for any reason whatsoever shall first be made available for excess applications in such manner as the Board shall determine at its absolute discretion;

That the Warrants shall be allotted and issued in registered form on the basis that, subject to any adjustments to the subscription rights attached to the Warrants under the provision of the deed poll to be executed by the Company constituting the Warrants ("**Deed Poll**");

THAT the Rights Shares, Warrants and new KNM Shares to be issued pursuant to the exercise of the Warrants shall be listed on the Main Market of Bursa Malaysia Securities Berhad ("**Bursa Securities**");

THAT the proceeds of the Proposed Rights Issue be utilised for the purposes as set out in the Circular to Shareholders dated 24 August 2012, and the Board be authorised with full powers to vary the manner and/or purpose of utilisation of such proceeds in such manner as the Board may deem fit, necessary and/or expedient, subject (where required) to the approval of the relevant authorities;

THAT the Board be and is hereby empowered and authorised to:-

(a) determine the final issue price and first call price of the Rights Shares after taking into consideration, among others, the theoretical ex-rights price based on the 5-day volume weighted average price ("VWAP") of KNM Shares prior to the price-fixing date to be determined later by the Board ("**Price-Fixing Date**") and the adequacy of reserves for capitalisation, but in any case the second call price will not be higher than RM0.60, and determine the exercise price of the Warrants after the receipt of all relevant approvals and taking into account the VWAP of the KNM Shares preceding the Price-Fixing Date, but in any case will not be lower than RM1.00, being the par value of the KNM Shares;

(b) deal with any fractional entitlements that may arise from the Proposed Rights Issue in such manner and on such terms and conditions as the Board in its absolute discretion deems fit or expedient or in the best interest of the Company;

(c) allot and issue such number of additional Warrants pursuant to the adjustments under the Deed Poll ("**Additional Warrants**") and to adjust from time to time the exercise price and/or the par value of the new KNM Shares to which the holder(s) of the Warrants are entitled to subscribe as a consequence of the adjustments under the provisions in the Deed Poll and/or to effect such modifications, variations and/or amendments as may be imposed / required / permitted by Bursa Securities and any other relevant authorities or parties or otherwise;

(d) if applicable, utilise and set off against the available reserves and create, allot and issue such appropriate number of new KNM Shares, credited as fully paid-up to the subscribers of the Rights Shares and of any excess Rights Shares thereof and to the holders of the Warrants arising from the exercise of the Warrants and the exercise of Additional Warrants and all new KNM Shares to be issued whether upon the Proposed Rights Issue or upon the exercise of the Warrants and the exercise of Additional Warrants shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing KNM Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment of the new KNM Shares arising from the Proposed Rights Issue or the exercise of the Warrants and/or additional Warrants;

(e) enter into the Deed Poll with full powers to assent to any condition, modification, revaluation, variation and/or amendments (if any) as the Board may deem fit, necessary and/or expedient or as may be imposed by the relevant authorities and to take all steps as it may consider necessary in order to implement, finalise and give full effect to the Deed Poll subject to all provisions and adjustments contained therein;

(f) enter into any underwriting agreement(s) for the underwriting of any part of the Proposed Rights Issue and/or the Rights Shares and all other documents, agreements and/or arrangements in connection with the underwriting of the Proposed Rights Issue and/or the Rights Shares with such parties and upon such terms and conditions as the Board may deem fit; and

(g) do all acts, deeds and things and execute, sign, deliver and cause to be delivered on behalf of the Company all such transactions, arrangements, agreements and/or documents as may be necessary or expedient in order to implement, give effect to and complete the Proposed Rights Issue (including the Proposed Capitalisation) with full powers to assent to any condition, modification, variation and/or amendment to the terms of the Proposed Rights Issue (including the Proposed Capitalisation) as the Board may deem fit, necessary and/or expedient in the interest of the Company or as may be imposed by any relevant authority or consequent upon the implementation of the said conditions, modifications, variations and/or amendments and to take all steps as it considers necessary in connection with the Proposed Rights Issue;

AND THAT this resolution constitutes a specific approval for the issuance of securities in the Company contemplated herein which is made pursuant to an offer, agreement or option and shall continue in full force and effect until all Rights Shares, Warrants and new KNM Shares to be issued pursuant to or in connection with the Proposed Rights Issue have been duly allotted and issued in accordance with the terms of the Proposed Rights Issue as well as the Additional Warrants to be issued pursuant to the adjustments in accordance with the provisions of the Deed Poll."

4.2 As a Special Resolution 2

The Proposed Amendments of Clause 5 of the Memorandum of Association and Articles 11, 92, 97, 101 and 171 of the Articles of Association of the Company is to facilitate and allow for implementation of the Proposed Rights Issue, Proposed Increase in Authorised Share Capital, as well as to streamline the Company's Articles of Association of the Company in line with the recent amendments to the Marin Market Listing Requirements of Bursa Securities.

SPECIAL RESOLUTION 2 – PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF KNM ("PROPOSED AMENDMENTS")

"**RESOLVED THAT**, subject to the passing of Special Resolution 1 above and Ordinary Resolution below and the approvals of the relevant authorities (where required) being obtained, approval be and is hereby given for the Memorandum and Articles of Association of the Company to be altered, modified, varied and deleted in the following manner, and that any Director of KNM be and is hereby authorised to give effect to the Proposed Amendments and to take all steps and do all acts and things in any manner as they may deem necessary to complete, finalise, implement and give full effect to the Proposed Amendments:-

Memorandum of Association

<u>Existing Clause 5</u>	<u>Proposed Clause 5</u>
The authorized capital of the Company is RM1,250,000,000 divided into 1,250,000,000 ordinary shares of RM1.00 each. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred or other special classes privileges, conditions or restrictions as to dividends, capital, voting or otherwise.	The authorized capital of the Company is RM2,250,000,000 divided into 2,250,000,000 ordinary shares of RM1.00 each. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred or other special classes privileges, conditions or restrictions as to dividends, capital, voting or otherwise.

Articles of Association

Existing Article 11 The authorized share capital of the Company is RM1,250,000,000 divided into 1,250,000,000 ordinary shares of RM1.00 each.	Proposed Article 11 The authorised share capital of the Company shall be that as mentioned in Clause 5 of the Memorandum of Association.
Existing Article 92 A poll shall be taken as the chairman directs (including (without limitation) the use of ballot or voting papers or tickets) and he may appoint scrutineers (who need not be Members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.	Proposed Article 92 A poll shall be taken as the chairman directs (including (without limitation) the use of ballot or voting papers or tickets or by way of electronic polling) and he may appoint scrutineers (who need not be Members) and fix a time and place for declaring the result of the poll. Any vote cast by way of electronic polling shall be deemed to constitute a vote by the members (or their proxies) for all purposes of these Articles. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.
Existing Article 97 Subject to Article 77 and any rights or restrictions attached to any shares, on a show of hands, every Member who: (1) being an individual, is present in person or by proxy or attorney; or (2) being a corporation, is present by a duly authorised representative or proxy or attorney, who is personally present and entitled to vote shall be entitled to 1 vote and on a poll every Member shall have 1 vote for every share of which he is the holder. On a poll votes may be given either personally or by proxy or by attorney or by a duly authorised representative of a corporate Members. A proxy shall be entitled to vote on any question at any general meeting.	Proposed Article 97 Subject to Article 77 and any rights or restrictions attached to any shares, on a show of hands, every Member who: (1) being an individual, is present in person or by proxy or attorney; or (2) being a corporation, is present by a duly authorised representative or proxy or attorney, who is physically present and entitled to vote shall be entitled to 1 vote and on a poll every Member shall have 1 vote for every share of which he is the holder. On a poll, votes may be given either personally or by proxy or by attorney or by a duly authorised representative of a corporate Members. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting.
Existing Article 101 (1) Where a Member of the Company is an authorised nominee as defined under The Central Depositories Act, it may appoint at least one proxy in respect of each securities Account it holds with the ordinary shares of the Company standing to the credit of the said Securities Account. (2) A Member may appoint up to 2 proxies to attend on the same occasion. A proxy need not be a Member and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. If a Member appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding to be represented by each proxy.	Proposed Article 101 (1) (a) Where a Member of the Company is an authorised nominee as defined under The Central Depositories Act, it may appoint not more than 2 proxies in respect of each securities Account it holds with the ordinary shares of the Company standing to the credit of the said Securities Account. (b) Where a Member of the Company is an exempt authorised nominee 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. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

(2) A Member may appoint up to 2 proxies to attend on the same occasion. A proxy need not be a Member and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. If a Member appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding to be represented by each proxy.

Existing Article 171

(1) The Company in general meeting may on the recommendation of the Directors resolve that it is desirable to capitalize any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution, and accordingly that the sum be set free for distribution among the Members who would have been entitled thereto if distributed by way of dividend and in the same proportions on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by those members respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and among the Members in the proportion aforesaid, or partly in the one way and partly in the other, and the Directors shall give effect to such resolution. A share premium account and a capital redemption reserve may, for the purposes of Article 171 be applied only in the paying up of unissued shares to be issued to Members as fully paid bonus shares.

(2) Whenever such a resolution as aforesaid is passed the Directors shall make all appropriations and applications of the undivided profits resolved to be capitalized thereby, and all allotments and issues of fully paid shares or debentures, if any, and generally shall do all acts and things required to give effect thereto, with full power to the Directors to make such provision by the issue of fractional shares or by payment in cash or otherwise as they think fit for the case of shares or debentures becoming distributable in fractions, and also to authorize

Proposed Article 171

(1) The Company in general meeting may on the recommendation of the Directors resolve that it is desirable to capitalize any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution, and accordingly that the sum be set free for distribution among the Members who would have been entitled thereto if distributed by way of dividend and in the same proportions on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by those members respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and among the Members in the proportion aforesaid, or partly in the one way and partly in the other, and the Directors shall give effect to such resolution. The Company's share premium account, revaluation reserve and/or capital reserve accounts (if any) may be applied in such manner as may be permitted by the Act.

(2) Whenever such a resolution as aforesaid is passed the Directors shall make all appropriations and applications of the undivided profits resolved to be capitalized thereby, and all allotments and issues of shares or debentures, if any, and generally shall do all acts and things required to give effect thereto, with full power to the Directors to make such provision by the

any person to enter on behalf of all the Members entitled thereto into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any further shares or debentures to which they may be entitled on the capitalization, or (as the case may require) for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalized, of the amounts or any part of the amounts remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding on all such Members.

issue of fractional shares or by payment in cash or otherwise as they think fit for the case of shares or debentures becoming distributable in fractions, and also to authorize any person to enter on behalf of all the Members entitled thereto into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any further shares or debentures to which they may be entitled on the capitalization, or (as the case may require) for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalized, of the amounts or any part of the amounts remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding on all such Members.

4.3 As an Ordinary Resolution

The Proposed Increase in the Authorised Share Capital of the Company is to facilitate the implementation of the Proposed Rights Issue. The authorised share capital of the Company will accordingly comprise 2,250,000,000 ordinary shares of RM1.00 each from the present authorised share capital of 1,250,000,000 ordinary shares of RM1.00 each.

ORDINARY RESOLUTION – PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF KNM ("PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL")

"**RESOLVED THAT**, subject to the passing of Special Resolution 1 and Special Resolution 2 above and the approvals of the relevant authorities (where required) being obtained, the authorised share capital of the Company be and is hereby increased from RM1,250,000,000 comprising 1,250,000,000 KNM Shares to RM2,250,000,000 comprising 2,250,000,000 KNM Shares by the creation of an additional 1,000,000,000 new KNM Shares.

THAT the Board be and is hereby authorised to do all such acts and things that are necessary to give full effect to the Proposed Increase In Authorised Share Capital.

AND THAT in consequence thereof, the Memorandum and Articles of Association of the Company and all other relevant documents be and are hereby amended accordingly."

CERTIFIED BY

~~DIRECTOR~~

~~DIRECTOR~~/SECRETARY

Date: 20 September 2012

INFORMATION ON OUR COMPANY

1. HISTORY AND PRINCIPAL ACTIVITIES

Our Company was formerly known as KNM Group Sdn. Bhd. and was incorporated in Malaysia under the Act on 22 July 2000 as a private limited company. It assumcd its present name on 12 September 2000 when it was converted to a public limited company. It was listed on the Second Board of Bursa Malaysia on 11 August 2003 and was transferred to the Main Board of the Kuala Lumpur Stock Exchange (now known as the Main Market of Bursa Securities) on 30 September 2005.

Our Company is principally engaged in investment holding and provision of management services, whilst the principal activities of our subsidiaries, associated companies and jointly controlled entities are set out in Section 5 of this Appendix.

2. SHARE CAPITAL AND MOVEMENT IN SHARE CAPITAL

2.1. Share capital

Our authorized and issued and paid-up share capital as at the LPD are as follows:-

	No. of KNM Shares	Par value	Total
		(RM)	(RM)
Authorised^	1,250,000,000	1.00	1,250,000,000
Issued and paid-up	1,001,092,593	1.00	1,001,092,593

Note:-

^ *The authorised share capital of our Company was increased to RM2,250,000,000 on 20 September 2012.*

2.2. Changes in share capital

The changes in our issued and fully paid-up share capital for the past 3 years prior to the LPD are as follows:-

Date of change	No. of KNM Shares	Par Value	Type of change	Cumulative issued and paid-up share capital
		(RM)		(RM)
08.12.2010^	-	1.00	Share Consolidation	1,001,092,593

Note:-

^ *Date of listing of the consolidated KNM Shares on the Main Market of Bursa Securities pursuant to an announcement made by our Company to Bursa Securities dated 6 December 2010.*

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3. SUBSTANTIAL SHAREHOLDERS

For illustrative purposes only and on the assumption that the Rights Issue had been affected on the LPD and all Entitled Shareholders and/or their renouncee(s) subscribe in full for their respective entitlements under the Rights Issue, our substantial shareholders' direct and indirect shareholdings in our Company before and after the Rights Issue based on our Register of Substantial Shareholders as at the LPD are as follows:-

Substantial shareholders	(I) As at the LPD				(II) After (I) and the Proposed Rights Issue			
	<----Direct---->		<----Indirect---->		<----Direct---->		<----Indirect---->	
	No. of KNM Shares	%^	No. of KNM Shares	%^	No. of KNM Shares	%^	No. of KNM Shares	%^
Inter Merger	204,956,833	20.96%	-	-	307,435,249	20.96%	-	-
ILSE	12,426,186	1.27%	228,877,560[(a)]	23.41%	18,639,279	1.27%	343,316,340	23.41%
GSL	4,197,500	0.43%	228,877,560[(b)]	23.41%	6,296,250	0.43%	343,316,340	23.41%

Substantial shareholders	After (II) and assuming full exercise of the Warrants			
	<----Direct---->		<----Indirect---->	
	No. of KNM Shares	%^	No. of KNM Shares	%^
Inter Merger	409,913,665	20.96%	-	-
ILSE	24,852,372	1.27%	457,755,120	23.41%
GSL	8,395,000	0.43%	457,755,120	23.41%

Notes:-

^ *Excludes 23,251,275 KNM Shares held as treasury shares*

(a) *Deemed interested by virtue of his indirect interest in Inter Merger, direct interest in Tegas Klasik, direct interest in McDermott Industries Ltd and interest of his children*

(b) *Deemed interested by virtue of her indirect interest in Inter Merger and interest of her spouse in Tegas Klasik, McDermott Industries Ltd and interest of her children*

4. DIRECTORS

4.1. Particulars of our Directors

The particulars of our Directors as at the LPD are as follows:-

Name *(Designation)*	Nationality	Age	Address	Profession
Ir Lee Swee Eng *(Executive Chairman/Chief Executive Officer)*	Malaysian	57	39, Jalan Awan Cina Taman Yarl 58200 Kuala Lumpur	Company Director
Dato' Ab Halim bin Mohyiddin, DPMS *(Senior Independent Non-Executive Director)*	Malaysian	66	No. 30 Jalan Kelab Golf 13/6 40000 Shah Alam Selangor Darul Ehsan	Company Director
Datuk Karownakaran @ Karunakaran a/l Ramasamy *(Independent Non-Executive Director)*	Malaysian	62	No. 6 Jalan Lengkok Zaaba Taman Tun Dr Ismail 60000 Kuala Lumpur	Company Director
Dato' Dr Khalid bin Ngah *(Independent Non-Executive Director)*	Malaysian	66	18175, Jalan Melati Indah 1 Kemensah Heights 53100 Kuala Lumpur	Company Director
Gan Siew Liat *(Executive Director)*	Malaysian	52	39, Jalan Awan Cina Taman Yarl 58200 Kuala Lumpur	Company Director
Chew Fook Sin *(Executive Director)*	Malaysian	56	5-10 Fortuna Court Jalan Awan Cina 58200 Kuala Lumpur	Company Director

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4.2. DIRECTORS' SHAREHOLDINGS

For illustrative purposes only and on the assumption that the Rights Issue had been affected on the LPD and all Entitled Shareholders and/or their renouncee(s) subscribe in full their respective entitlements under the Rights Issue, our Directors' direct and indirect shareholdings in our Company before and after the Rights Issue based on our Register of Directors as at the LPD are as follows:-

	(I) As at the LPD				(II) After (I) and the Rights Issue			
	<----------Direct---------->		<----------Indirect---------->		<----------Direct---------->		<----------Indirect---------->	
Directors	No. of KNM Shares	%^	No. of KNM Shares	%^	No. of KNM Shares	%^	No. of KNM Shares	%^
ILSE	12,426,186	1.27%	228,877,560[(a)]	23.41%	18,639,279	1.27%	343,316,340	23.41%
GSL	4,197,500	0.43%	228,877,560[(b)]	23.41%	6,296,250	0.43%	343,316,340	23.41%
Chew Fook Sin	3,057,300	0.31%	17,960,727[(c)]	1.84%	4,585,950	0.31%	26,941,090	1.84%
Dato' Ab Halim bin Mohyiddin, DPMS	1,362,500	0.14%	-	-	2,043,750	0.14%	-	-

	After (II) and assuming full exercise of the Warrants			
	<----------Direct---------->		<----------Indirect---------->	
Directors	No. of KNM Shares	%^	No. of KNM Shares	%^
ILSE	24,852,372	1.27%	457,755,120	23.41%
GSL	8,395,000	0.43%	457,755,120	23.41%
Chew Fook Sin	6,114,600	0.31%	35,921,454	1.84%
Dato' Ab Halim bin Mohyiddin, DPMS	2,725,000	0.14%	-	-

Notes:-

^ *Excludes 23,251,275 KNM Shares held as treasury shares*

(a) *Deemed interested by virtue of his indirect interest in Inter Merger, direct interest in Tegas Klasik, direct interest in McDermott Industries Ltd and interest of his children.*

(b) *Deemed interested by virtue of her indirect interest in Inter Merger and interest of her spouse in Tegas Klasik, McDermott Industries Ltd and interest of her children*

(c) *Deemed interested by virtue of his direct interest in Tegas Klasik.*

5. SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

Our subsidiaries as at the LPD are as follows:-

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
KNM Process Systems Sdn. Bhd.	28 June 1990/Malaysia	RM483,100,000	100	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.
KNM International Sdn. Bhd.	10 May 2002/Malaysia	RM1,000,000	100	Provision of management, technical advisory, license and trademark services to international related companies and related international investments.
KNM Capital Sdn. Bhd.	24 April 2006/Malaysia	RM2,500,000	100	Provision of funding and treasury services and all related functions.
KNM Management Services Sdn. Bhd.	19 May 2006/Malaysia	RM500,000	100	Provision of qualifying services under the overseas headquarters (OHQ) concept which includes management, treasury, financial advisory, technical support, marketing, business development and procurement and all related functions.
KNM Renewable Energy Sdn. Bhd.	4 October 2006/Malaysia	RM2	100	Provision of project management, project business development and technical services.
KNM Capital Labuan Limited	14 March 2008/Labuan	USD1	100	Provision of funding and treasury services and all related functions.
KNM Services (Singapore) Pte. Ltd.	25 November 2009/Singapore	USD1	100	Dormant.
KNM China Pte Limited	22 January 2010/Hong Kong	HKD100	100	Investment holding

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Litwin Asia Pacific Sdn. Bhd.	27 January 2010/Malaysia	RM1,000,000	51	Investment holding
KNM Eurasia Sdn. Bhd.	28 February 1992/Malaysia	RM100,000	100	Investment holding
Subsidiaries of KNM Process Systems Sdn. Bhd.				
KNM OGPET (East Coast) Sdn. Bhd.	30 May 1994/Malaysia	RM100,000	100	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.
Duraton Engineering Sdn. Bhd.	14 November 2000/Malaysia	RM2	100	Provision of project manpower, engineering, non-destructive testing and technical consultancy services.
Perwira Awan Sdn. Bhd.	17 October 1992/Malaysia	RM100	100	Property investment.
KNM Technical Services Sdn. Bhd.	24 March 2005/Malaysia	RM2	100	Provision of technieal services and other associated services related to the oil, gas and petrochemical industries.
Sumber Amantech Sdn. Bhd.	17 June 2004/Malaysia	RM2	100	Provision of project management and technical services.
KNM Exotic Equipment Sdn. Bhd.	19 July 1991/Malaysia	RM9,000,000	100	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialized structural assemblies and module assemblies for the oil, gas and petrochemical industries.
KNM Europa B.V.	23 March 2006/ Netherlands	EUR180,000	100	Investment holding

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
KNM Pty Ltd	28 November 2000/Australia	AUD5,300,000	100	Design, manufacture, sale and service of heat exchange systems.
Borsig Industrial Services Sdn. Bhd.	8 June 1990/Malaysia	RM1,000,000	100	Dormant
Borsig Boiler Systems Sdn. Bhd.	5 July 2006/Malaysia	RM8,000,000	100	Dormant
Deutsche KNM GmbH	8 May 2008/Germany	EUR25,000	100	Investment holding
KNM Sistemas de Processamento do Brasil Ltda	21 August 2006/Brazil	BRL11,123,085	100	Investment holding.
KNM OGPET (Sabah) Sdn. Bhd.	23 March 2011/Malaysia	RM1,000	80	Dormant
KNM DP-Fabricators Sdn. Bhd.	22 January 1992/Malaysia	RM528,570	86	Dormant
Subsidiaries of KNM International Sdn. Bhd.				
KNM Overseas (China) Sdn. Bhd.	21 January 2002/Malaysia	RM1,332	100	Investment holding
KNM Global Ltd	10 June 2004/British Virgin Islands	USD3,000	100	Provision of management, procurement, business development, technical advisory and marketing services.
KNM Engineering Services Private Limited	4 October 2006/India	INR100,000	100	Design, engineering, technical and project management services in relation to proeess equipment, plant facilities and general facilities for the oil, gas, petrochemicals, mineral processing and general industries. The Company has not commenced operations.
PT KPE Industries	27 July 2007[1]/Indonesia	USD500,000	100	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

[1] PT KPE Industries was established in the framework of Law No. 25/2007 on Foreign Capital Investment by notarial deed dated 13 June 2007 No. 41. This deed was approved by the Minister of Law and Human Rights under No. W.33-00620 HT.01.01-TH.2007 dated 27 July 2007.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Saudi KNM Ltd.	5 April 2008/Saudi Arabia	SAR14,300,000	51	Production of platforms, towers, columns, pressure pipe, large barrels, boilers, thermal transformers, large tanks and cooling fans.
KNM Oil & Gas (B) Sdn. Bhd.	10 May 2005/Brunei Darussalam	BND100,000	100[2]	Dormant
Subsidiary of KNM Renewable Energy Sdn. Bhd.				
KNM-CIW Sdn. Bhd.	31 January 2007/Malaysia	RM500,000	100	Dormant
Subsidiaries of KNM China Pte Limited				
BORSIG Compression (China) Pte Limited	29 January 2010/Hong Kong	HKD100	100	Dormant
BORSIG Valves (China) Pte Limited	29 January 2010/Hong Kong	HKD100	100	Dormant
Subsidiaries of KNM Eurasia Sdn. Bhd.				
KNM Process Systems (Kazakhstan) Sdn. Bhd.	16 February 2005/Malaysia	RM2	100	Dormant
KNM Proeess Systems (Uzbekistan) Sdn. Bhd.	10 July 1995/Malaysia	RM2	100	Dormant
KNM Process Systems (Turkmenistan) Sdn. Bhd.	10 March 2005/Malaysia	RM2	100	Dormant
Subsidiary of KNM Exotic Equipment Sdn. Bhd.				
KMK Power Sdn. Bhd.	30 July1994 /Malaysia	RM600,010	100	Dormant

[2] 5% of the shares are held through a nominee.

Name	**Date/Place of incorporation**	**Issued and paid-up capital**	**Effective equity interest (%)**	**Principal activities**
Subsidiaries of KNM Europa B.V.				
FBM HUDSON ITALIANA S.p.A.	27 October 1992/Italy	EUR746,501	100	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.
FBM ICOSS s.r.l.	7 March 1974/Italy	EUR10,000	100	Design and eonstruction of fully welded plate type heat exehanger plates, bundle exchangers and jacketed pressure vessels for different fields such as chemical, petrochemical, textile pharmaceutical, food industry, aerospace and research industries.
KNM Corporation	12 January 2007/Canada	CAN3,500,000	100	Investment holding
KNM Projeet Services Limited	7 February 2011/United Kingdom	GBP10,000	100	Investment holding
KNM Teehnieal Services LLC	14 Mareh 2012/ Uzbekistan	USD1,500[3]	100	Dormant
Subsidiaries of KNM Pty Ltd				
W.E. Smith Engineering Pty Ltd	8 March 2001 /Australia	AUD1,300,000	100	Thermal and mechanical design, drafting, manufacture of shell and tube heat exchangers, vessels, columns and feed water heaters.
HEA Australia Pty Ltd	28 May 2003/Australia	AUD1	100	Manufacture of air-cooled, shell and tube, and plate heat exehangers, vessels and columns.

[3] This figure represents the chartered capital of the company.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
PT Heat Exchangers Indonesia	16 March 1995[4]/Indonesia	USD889,156	100	Manufacture of air-cooled, shells, tube plates, frame heat exchangers, vessels and columns.
Subsidiary of Deutsche KNM GmbH				
BORSIG Beteiligungsverwaltungsgesellschaft mbH	15 June 2006/Germany	EUR100,000	100	Investment holding
Subsidiaries of KNM Sistemas de Processamento do Brasil Ltda				
KNM Industrial Ltda	4 May 1976/Brazil	BRL4,038,532	100	Design, fabrication, assembly and erection of tanks, spheres, storage systems, structural systems, piping and ducting systems for oil, gas and industrial plants.
KNM Servicos Ltda	10 November 1994/Brazil	BRL2,700,000	100	Provision of construction, management services, mechanical assembly and erection works, electrical, instrumentation works and maintenance services for oil, gas and industrial plants.
KNM Equipamentos S.A.	2 May 2005/Brazil	BRL8,188,309	100	Design, manufacture and commissioning of process equipment, boilers, transport, and other industrial equipment for oil, gas and industrial plants.
Subsidiary of KNM DP-Fabricators Sdn. Bhd.				
KNM-DP Harta Bina Sdn. Bhd.	24 September 1994/Malaysia	RM200,000	93	Dormant

[4] PT Heat Exchangers Indonesia was established under the framework of the Foreign Capital Investment Law No. 1, 1967 based on the notarial deed dated 19 May 1994. Its Articles of Association was initially approved by the Minister of Justice and Human Rights of Republic of Indonesia in a decision letter No. C2-3472.HT.01.04.TH.95 dated 16 March 1995.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Subsidiary of KNM Overseas (China) Sdn. Bhd.				
KNM Special Process Equipment (Changshu) Co Ltd	26 June 2002/China	USD8,140,000	100	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.
Subsidiary of KNM International Sdn Bhd				
FBM – KNM FZCO	1 September 2004/United Arab Emirates	AED64,800,000	100	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.
Subsidiaries of KNM Corporation				
KNM Process Equipment Inc.	12 January 2007/Canada	CAN10	100	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 Ameriea region.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
KNM Industries Inc.	12 January 2007/Canada	CAN3,500,000	100	An asset holding company and shall own the land, manufacturing plant and machinery in relation to our Group's manufacturing facility in Edmonton, Alberta, Canada.
KPS Inc.	20 February 2008/Canada	CAN10	100	Investment holding
Subsidiary of BORSIG Beteiligungsverwaltungsgesellschaft mbH				
BORSIG GmbH	10 December 2002/Germany	EUR100,000	100	Advisory and administration services as well as acquisition of and holding shares in other companies on behalf and for its own account, in particular for and to companies of the BORSIG Group.
Subsidiary of KPS Inc.				
KPS Technology & Engineering LLC	1 February 2008/United States of America	USD700,000[5]	60[6]	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.
Subsidiaries of BORSIG GmbH				
BORSIG Process Heat Exchanger GmbH	5 June 2002/Germany	EUR1,901,000	100	Processing, planning, fabrication and distribution of and the trading with machines, assets, apparatuses and miscellaneous components, particularly for generating plant, petrochemical and chemical industries.
BORSIG ZM Compression GmbH	16 August 2004/Germany	EUR25,000	100	System engineering, industrial fabrication, assembly services as well as the sale of machines and constructions of compressors, containers, and silo and conveyor technique.

[5] This figure represents the cash capital contributions made by certain members of the company.
[6] This figure represents the membership interest held by KPS Inc. in KPS Technology & Engineering LLC.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
BORSIG Membrane Technology GmbH	25 November 2004/Germany	EUR26,000	100	Processing, planning, fabrication and distribution of and trading with machines and construction of apparatuses and miscellaneous components in the field of membrane technique.
BORSIG Service GmbH	25 November 2004/Germany	EUR26,000	100	Provides installation, maintenance and other industrial services of maehines and construction of apparatuses and other components.
BORSIG Boiler Systems GmbH	13 January 2000/Germany	EUR25,000	100	Planning, delivery, installation, and implementation of constructions for generating plants as well as provision of maintenance and other services for such constructions.
Subsidiary of BORSIG ZM Compression GmbH				
BORSIG Compressor Parts GmbH	7 January 2009/Germany	EUR25,000	100	Development, production and distribution of valves, compressor parts, monitoring systems for compressors, provision of maintenance and repair works of compressors and other assets.
Subsidiary of BORSIG Membrane Technology GmbH				
GMT Membrantechnik GmbH	18 October 1995/Germany	EUR102,258.38	51	Development, processing and distribution of membranes, membrane modules and membrane components.
Subsidiary of KNM Project Services Limited				
Energy Park Investments Limited	1 April 2010/United Kingdom	GBP1,000	80	Investment holding.
Subsidiary of Energy Park Investments Limited				
Energy Park Peterborough Limited	18 January 2008/United Kingdom	GBP1	80	Dormant.

INFORMATION ON OUR COMPANY *(Cont'd)*

Our associated companies as at the LPD are as follows:-

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Kimma Thai Co., Ltd.	10 November 2009/Thailand	THB200,000	49	Investment holding
Dimensi Bumijaya Sdn. Bhd.	30 December 2010/Malaysia	RM100,000	40	Dormant
Subsidiary of Kimma Thai Co., Ltd.				
KNM Projects (Thailand) Co., Ltd.	17 November 2009/Thailand	THB4,000,000	74	Operate the business of providing the services relating to the arrangement of design, engineering, procurement, construction testing and other kinds of serviees relating to oil, gas, petrochemical, minerals, biofuel and energy industries.

Our jointly controlled entities as at the LPD are as follows:-

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
KPN Gas Technology Sdn. Bhd.	22 October 2008/Malaysia	RM1,000,000	50	Provision of project management, process management process know how, engineering, procurement, construction, commissioning, start-up, operation, spare parts and maintenance for the field gas separation and gas treatment facilities including desalting, gas dehydration, gas sweetening, natural gas liquids recovery, sulphur recovery and modular units.
Verwater KNM Sdn. Bhd.	11 August 1992/Malaysia	RM750,000	50	Involved in the business of relocating and jacking of tank catalyst change-out and chemical cleaning work.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
KNM Grinaker-LTA (Proprietary) Limited	28 April 2010/Republic of South Africa	ZAR20,000,000	49.9	Manufacturing of process and pressure vessels, heat transfer equipment, industrial boilers, tank farms, process skids and modules for the Republic of South Africa market and on a case to case basis for other markets.
Petrosab Petroleum Sdn. Bhd (formerly known as KNM Petrosab Sdn. Bhd.)	20 October 2010/Malaysia	RM100,000	40	Dormant
Subsidiary of Petrosab Petroleum Sdn. Bhd. (formerly known as KNM Petrosab Sdn. Bhd.)				
KNM Petrosab Engineering Sdn. Bhd.	20 October 2010/Malaysia	RM12,000,000	52	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.

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6. PROFIT AND DIVIDEND RECORD

The profit and dividend record of our Group based on our audited consolidated financial statements for the past 3 FYE 31 December 2011 and the unaudited consolidated financial statements for the 6-month FPE 30 June 2011 and the 6-month FPE 30 June 2012 are summarised as follows:-

	Audited FYE 31 December			Unaudited 6-month FPE	
	2009	2010	2011	30 June 2011	30 June 2012
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	1,839,575	1,559,103	1,963,778	957,300	1,172,527
Gross profit	424,293	293,358	187,166	147,873	199,728
Earnings before interest expense, taxation, depreciation and amortization ("**EBITDA**")*	322,670	190,092	(13,094)	78,343	109,482
Other income	137,743	61,769	27,460	29,166	13,482
Finance cost	(72,038)	(54,193)	(52,190)	(25,912)	(26,022)
Share of profits/(loss) of associates and joint ventures	(476)	237	(480)	493	(408)
Profit before taxation/(loss before taxation)	138,114	46,510	(155,882)	8,075	37,709
Taxation	119,733	75,963	62,100	20,890	31,762
Profit after taxation/(loss after taxation)	257,847	122,473	(93,782)	28,965	69,471
Profit/(loss) attributable to owners of the Company	260,556	118,201	(91,766)	29,872	68,894
Profit/(loss) attributable to non-controlling interests	(2,709)	4,272	(2,016)	(907)	577
Gross profit margin (%)	23	19	10	15	17
Weighted average number of KNM Shares in issue ('000)	991,094	983,410	978,580	979,244	977,845
Basic EPS (sen)	26	12	(9)	3	7
Gross dividend per KNM Share (sen)	-	3	-	-	-

Note:-

* *Includes depreciation charged for the year*

Commentary on past performance

(i) FYE 31 December 2009

Our Group's revenue for the FYE 31 December 2009 decreased by 27.3% to RM1.84 billion from RM2.53 billion in the preceding year. Our Group recorded an EBITDA of RM322.67 million for the FYE 31 December 2009, representing a decrease of 44.8% from RM584.02 million in FYE 31 December 2008. Our Group registered a profit after tax of RM257.85 million in the FYE 31 December 2009, representing a decrease of 23.3% compared with the previous year's profit after tax of RM336.23 million. Compared to the preceding year, the lower financial performance in this period is reflective of global economic slowdown and lower utilization of capacity.

The decrease in our Group's financial results for FYE 31 December 2009 was mainly due to lower sales, lower order intakes caused by the weaker global demands and the provision for foreseeable losses attributed to our Group's Canadian operations.

(ii) FYE 31 December 2010

Our Group's revenue for the FYE 31 December 2010 decreased by 15.2% to RM1.56 billion from RM1.84 billion in the preceding year. Our Group recorded an EBITDA of RM190.09 million for the FYE 31 December 2010 which is a decrease of 41.1%. from RM322.67 million recorded in FYE 31 December 2009. Our Group registered a profit after tax of RM122.47 million in FYE 31 December 2010 representing a decrease of 52.5% compared with the preceding year's profit after taxation of RM257.85 million.

Compared with the preceding year, the lower performance registered for FYE 31 December 2010 was mainly due to lower job orders, lower contributions margins and higher operating costs as a result of increased competition.

(iii) FYE 31 December 2011

Our Group's revenue for the FYE 31 December 2011 increased by 25.6% to RM1.96 billion from RM1.56 billion in the preceding year. Nevertheless, our Group registered an EBITDA loss and a loss after tax of RM13.09 million and RM93.78 million respectively for the FYE 31 December 2011.

The drastie decline in profits was attributed to the deep provisioning made during the year under review mainly for foreseeable losses and credit impairments for certain projects with low margins secured in previous years and the negative impact resulting from the deferment of the Peterborough Waste to Energy project.

(iv) 6-month FPE 30 June 2012

Our Group's revenue for the 6-month FPE 30 June 2012 increased by 22.3% to RM1.17 billion as compared with the revenue of RM957.30 million recorded in the 6-month FPE 30 June 2011. Our Group's EBITDA increased by 39.7% to RM109.48 million from RM78.34 million recorded in the 6-month FPE 30 June 2011. Our Group registered a profit after taxation of RM69.47 million for the 6-month FPE 30 June 2012, representing an increase of 139.9% compared with the profit after taxation of RM28.96 million in the 6-month FPE 30 June 2011. The higher revenue, EBITDA and profit after taxation and minority interest in 6-month FPE 30 June 2012 were due to higher job recognition on stronger order book and better contribution margin from projects.

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7. HISTORICAL SHARE PRICE

The monthly high and low market price of our Shares as traded on the Main Market of Bursa Securities for the past 12 months from October 2011 to September 2012 are as follows:-

	High (RM)	Low (RM)
2011		
October	1.51	1.16
November	1.43	0.970
December	1.04	0.830
2012		
January	1.17	0.950
February	1.18	0.925
March	0.960	0.835
April	0.925	0.835
May	0.835	0.705
June	0.765	0.700
July	0.720	0.620
August	0.765	0.560
September	0.720	0.625
The last transacted market price of KNM Shares on 20 June 2012 (being the Market Day immediately prior to the announcement of the Rights Issue on 21 June 2012)		0.745
The last transacted market price of KNM on the Price-Fixing Date		0.680
The last transacted market price of KNM Shares as at the LPD		0.705
The last transacted market price of KNM Shares on 15 October 2012 (being the market day prior to the ex-date for the Rights Issue on 16 October 2012)		0.690

(Source: Bloomberg)

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The Board of Directors
KNM Group Berhad
15, Jalan Dagang SB4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

11 October 2012

Dear Sirs,

KNM Group Berhad ("KNM" or the "Company")
Proforma consolidated statements of financial position as at 31 December 2011

We report on the proforma consolidated statements of financial position of KNM as at 31 December 2011 which have been prepared for illustrative purposes only, for which the Board of Directors of the Company ("Board") are solely responsible, as set out in attachment (which we have stamped for the purpose of identification).

The proforma consolidated statements of financial position, together with the notes thereon incorporates the Renounceable Two-Call Rights Issue of 488,920,659 new ordinary shares of RM1.00 each in KNM ("Rights Shares") at an indicative issue price of RM1.00 for each Rights Share on the basis of one (1) Rights Share for every two (2) existing ordinary shares of KNM held as at an entitlement date to be determined later together with 488,920,659 detachable warrants ("Warrants") on the basis of one (1) Warrant for every one (1) Rights Share subscribed for ("Rights Issue").

The basis of compilation is described in the notes to the proforma consolidated statements of financial position. The proforma consolidated statements of financial position have been compiled for illustrative purposes only, to provide information about how the transactions might have affected the financial position of KNM on the basis of accounting policies adopted by KNM in preparing the financial statements if they have taken place as at 31 December 2011.

Because of its nature, the proforma consolidated statements of financial position addresses hypothetical situations and therefore do not represent KNM's actual financial positions had the transactions (or events) occurred at the reporting date. Further, such financial information from the proforma consolidated statements of financial position does not purport to predict KNM's future financial position.

Directors' Responsibilities

It is the responsibility solely of the Board to prepare the proforma consolidated statements of financial position as at 31 December 2011 on the basis described in the notes to the proforma consolidated statements of financial position, for illustrative purposes only, in accordance with the requirements of the Main Market Listing Requirements issued by Bursa Malaysia Securities Berhad ("Listing Requirements") in respect of the Rights Issue.

KPMG

KNM Group Berhad
Proforma consolidated statements of financial position
as at 31 December 2011
11 October 2012

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion as required by the Listing Requirements, as to the proper compilation of the proforma consolidated statements of financial position. In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the proforma consolidated statements of financial position, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with International Standard on Assurance Engagements 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, including adjustments to KNM's accounting policies, nor of the proforma assumptions stated in the notes to the proforma consolidated statements of financial position, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the proforma adjustments, and discussing the proforma consolidated statements of financial position as at 31 December 2011 with the Board and responsible officers of KNM.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the proforma consolidated statements of financial position as at 31 December 2011 have been properly compiled on the basis stated and such basis is consistent with the accounting policies of KNM and in compliance with Financial Reporting Standards in Malaysia.

Opinion

In our opinion,

(a) the proforma consolidated statements of financial position has been properly compiled on the basis of preparation stated in the accompanying notes to the proforma consolidated statements of financial position using the audited financial statements as at 31 December 2011 which was prepared in accordance with Financial Reporting Standards in Malaysia; and

(b) such basis is consistent with the accounting policies adopted and disclosed by KNM as at 31 December 2011; and

(c) the adjustments are appropriate for the purpose of the proforma consolidated statements of financial position of KNM as at 31 December 2011.

KPMG

KNM Group Berhad
Proforma consolidated statements of financial position
as at 31 December 2011
11 October 2012

Other matters

The proforma consolidated statements of financial position has been prepared for the purpose of the inclusion in the Abridged Prospectus dated 18 October 2012 in relation to the Rights Issue and should not be relied on for any other purposes.

Yours faithfully

KPMG

KPMG
Firm No. AF 0758
Chartered Accountants

Petaling Jaya, Malaysia

KNM GROUP BERHAD ("KNM" or the "Company") AND ITS SUBSIDIARIES ("KNM GROUP")

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

The proforma eonsolidated statements of financial position of KNM as at 31 December 2011 as set out below have been prepared solely for illustrative purposes only and to show the effects of the transactions referred to in the notes:

	Note	Audited As at 31 December 2011	Proforma I After adjusting for Treasury shares acquired from 1 Jan 2012 up to 18 Sept 2012	Proforma II After Proforma I and Rights Issue	Proforma III After Proforma II and assuming full exercise of Warrants
		RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment		744,824	744,824	744,824	744,824
Goodwill		798,507	798,507	798,507	798,507
Other intangible asset		594,641	594,641	594,641	594,641
Investments in associates		45	45	45	45
Investments in jointly-controlled entities		5,882	5,882	5,882	5,882
Other investments, including derivatives		14,088	14,088	14,088	14,088
Deferred tax assets		279,922	279,922	279,922	279,922
Total non-current assets		2,437,909	2,437,909	2,437,909	2,437,909
Other investments, including derivatives		20,584	20,584	20,584	20,584
Inventories		72,120	72,120	72,120	72,120
Current tax assets		30,969	30,969	30,969	30,969
Trade and other receivables		953,858	953,858	953,858	953,858
Cash and cash equivalents	3	416,429	416,419	455,987	594,908
Total current assets		1,493,960	1,493,950	1,533,518	1,672,439
Total assets		3,931,869	3,931,859	3,971,427	4,110,348

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PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 (Continued)

	Note	Audited As at 31 December 2011	Proforma I After adjusting for Treasury shares acquired from 1 Jan 2012 up to 18 Sept 2012	Proforma II After Proforma I and Rights Issue	Proforma III After Proforma II and assuming full exercise of Warrants
		RM'000	RM'000	RM'000	RM'000
Equity					
Share capital	4	1,001,093	1,001,093	1,475,346	1,978,935
Share premium	5	319,426	319,426	20,073	20,073
Treasury shares	6	(53,371)	(53,381)	(53,381)	(53,381)
Revaluation reserve		40,231	40,231	40,231	40,231
Translation reserve		(506,901)	(506,901)	(506,901)	(506,901)
Hedging reserve		(5,172)	(5,172)	(5,172)	(5,172)
Fair value reserve		30	30	30	30
Retained earnings		809,719	809,719	809,719	809,719
Warrant reserve	7	-	-	14,668	-
Total equity attributable to owners of the Company		1,605,055	1,605,045	1,794,613	2,283,534
Non-controlling interests		7,021	7,021	7,021	7,021
Total equity		1,612,076	1,612,066	1,801,634	2,290,555
Liabilities					
Loans and borrowings		366,390	366,390	366,390	366,390
Long term payables		20,702	20,702	20,702	20,702
Long service leave liability		2,366	2,366	2,366	2,366
Deferred tax liabilities		238,042	238,042	238,042	238,042
Total non-current liabilities		627,500	627,500	627,500	627,500
Loans and borrowings	8	777,894	777,894	627,894	277,894
Current tax liabilities		6,075	6,075	6,075	6,075
Deferred income		390,160	390,160	390,160	390,160
Trade and other payables, including derivatives		518,164	518,164	518,164	518,164
Total current liabilities		1,692,293	1,692,293	1,542,293	1,192,293
Total liabilities		2,319,793	2,319,793	2,169,793	1,819,793
Total equity and liabilities		3,931,869	3,931,859	3,971,427	4,110,348

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KNM GROUP BERHAD ("KNM" or the "Company") AND ITS SUBSIDIARIES ("KNM GROUP")

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

1. Basis of preparation

The proforma consolidated statements of financial position of the KNM Group as at 31 December 2011 are based on the audited financial statements of KNM Group as at 31 December 2011 which were prepared in accordance with Financial Reporting Standards, generally accepted accounting principles and the Companies Act, 1965 in Malaysia. The accounting policies, basis and assumptions used in the preparation of the proforma consolidated statements of financial position are consistent with those adopted by KNM Group in the preparation of their audited financial statements for the year ended 31 December 2011 (the said audited financial statements is included as Appendix IV of the Abridged Prospectus dated 18 October 2012), except for the accounting policy for Warrant Reserves as disclosed in Note 1.1.

The proforma consolidated statements of financial position do not include the effects of the adoption of Malaysian Financial Reporting Standards issued by the Malaysian Accounting Standards Board and International Financial Reporting Standards which are effective for the annual period beginning on 1 January 2012.

The proforma consolidated statements of financial position is presented assuming KNM will not dispose or cancel any of the 23,251,275 ordinary shares of RM1.00 each ("KNM Shares") held as treasury shares by the Company as at 18 September 2012 or buy-back any KNM Shares at any time prior to the completion of the Rights Issue.

1.1 Accounting policy for 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 proforma consolidated 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.

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PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 (Continued)

2. Proforma consolidated statements of financial position as at 31 December 2011

The proforma consolidated statements of financial position are for illustrative purposes only and to incorporate the following transactions as though they were effected on 31 December 2011:

Proforma I – After adjusting for Treasury shares acquired from 1 Jan 2012 up to 18 Sept 2012

Proforma I incorporates the adjustments for treasury share buy back exercise subsequent to year ended 31 December 2011. On 2 March 2012, KNM has acquired 10,000 units of KNM Shares for a consideration of RM9,570.

Proforma II – Rights Issue

Proforma II incorporates Proforma I and the effects of the Renounceable Two-Call Rights Issue of 488,920,659 new ordinary shares of RM1.00 each in KNM ("Rights Shares") on the basis of one (1) Rights Share for every two (2) existing KNM Shares held as at an entitlement date to be determined later together with 488,920,659 detachable warrants ("Warrants") on the basis of one (1) Warrant for every one (1) Rights Share subscribed for ("Rights Issue"). The indicative issue price of the Rights Shares is RM1.00 each, of which RM0.40 will be satisfied in cash and the remaining RM0.60 via capitalisation of KNM's share premium reserves.

The total gross proceeds of RM195,568,264 are assumed to be utilised as follows:
(a) RM150,000,000 for the repayment of bank borrowings;
(b) RM6,000,000 to defray the estimated expenses relating to the Rights Issue; and
(c) RM39,568,264 for working capital purposes.

The estimated expenses in relation to the Rights Issue of RM6,000,000 will be debited to the "Share Premium" account.

Warrant Reserve represents the value assigned to the Warrants. The fair value assigned to the Warrants of RM0.03 each is determined using the "Trinomial" pricing model based on the relative fair value of the KNM Shares and the Warrants as at 20 June 2012.

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PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 (Continued)

2. Proforma consolidated statements of financial position as at 31 December 2011 (continued)

Proforma III – Assuming full exercise of Warrants

Proforma III incorporates Proforma II and the effects of full exercise of 488,920,659 Warrants into 488,920,659 new KNM Shares at an indicative exercise price of RM1.00. The total gross proceeds of RM488,920,659 are assumed to be utilised as follows:

(a) RM350,000,000 for the repayment of bank borrowings, and
(b) RM138,920,659 for working capital purposes.

The Warrant Reserve will be transferred to share capital account upon the exercised of the Warrants.

3. Movement in cash and cash equivalents

		RM'000
Balance at 31 December 2011		416,429
Effects of Proforma I	- Purchase of treasury shares from 1 Jan 2012 to 18 Sept 2012	(10)
Proforma I		416,419
Effects of Proforma II	- Proceeds from issuance of new KNM Shares via Rights Issue	195,568
	- Payment of expenses for the Rights Issue	(6,000)
	- Repayment of bank borrowings	(150,000)
Proforma II		455,987
Effects of Proforma III	- Proceeds from issuance of new KNM Shares pursuant to the exercise of the Warrants	488,921
	- Repayment of bank borrowings	(350,000)
Proforma III		594,908

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PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 (Continued)

4. Movement in share capital

		RM'000
Balance at 31 December 2011 and Proforma I		1,001,093
Effects of Proforma II	- Issuance of new KNM Shares via Rights Issue	488,921
	- Allocation of fair value of Warrants to "Warrant Reserve"	(14,668)
Proforma II		1,475,346
Effects of Proforma III	- Issuance of new KNM Shares pursuant to exercise of Warrants	488,921
	- Transfer from "Warrant Reserve" upon exercise of Warrants	14,668
Proforma III		1,978,935

5. Movement in share premium

		RM'000
Balance at 31 December 2011 and Proforma I		319,426
Effects of Proforma II	- Utilisation of share premium for the Rights Issue	(293,353)
	- Rights Issue expenses	(6,000)
Proforma II and III		20,073

6. Movement in treasury shares

		RM'000
Balance at 31 December 2011		53,371
Effects of Proforma I	- Purchase of treasury shares from 1 Jan 2012 to 18 Sept 2012	10
Proforma I, II and III		53,381

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 (Continued)

7. Movement in Warrant Reserve

		RM'000
Balance at 31 December 2011 and Proforma I		-
Effects of Proforma II	- Allocation of fair value of Warrants from share capital	14,668
Proforma II		14,668
Effects of Proforma II	- Transfer to share capital upon exercise of Warrants	(14,668)
Proforma III		-

It is assumed that Warrant holders will exercise their entire holdings of Warrants.

8. Movement in loans and borrowings

		RM'000
Balance at 31 December 2011 and Proforma I		777,894
Effects of Proforma II	- Repayment of loans and borrowings	(150,000)
Proforma II		627,894
Effects of Proforma II	- Repayment of loans and borrowings	(350,000)
Proforma III		277,894

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LAU BEE GEE (MAICSA 0817743)
COMPANY SECRETARY

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Financial statements for the year ended 31 December 2011

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Directors' report for the year ended 31 December 2011

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2011.

Principal activities

The Company is principally engaged in investment holding and provision of management services, whilst 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.

Results

	Group RM'000	Company RM'000
(Loss)/Profit for the year attributable to:		
Owners of the Company	(91,766)	3,128
Non-controlling interests	(2,016)	-
	(93,782)	3,128

Reserves and provisions

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

Dividends

Since the end of the previous financial year, the Company paid an interim ordinary dividend of 3 sen per share tax exempt totaling RM29,343,040 in respect of the financial year ended 31 December 2010 on 19 April 2011.

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

Directors of the Company

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

Lee Swee Eng
Dato' Ab. Halim bin Mohyiddin
Datuk Karownakaran @ Karunakaran A/L Ramasamy
Gan Siew Liat
Chew Fook Sin
Dato' Dr Khalid bin Ngah (Appointed on 19 August 2011)
Lim Yu Tey (Retired on 29 June 2011)
Ng Boon Su (Retired on 24 April 2012)

Directors' interests in shares

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

	Number of ordinary shares of RM1.00 each			
	At 1.1.2011	Bought	Sold	At 31.12.2011
Shareholdings in which Directors have direct interests in the Company				
Lee Swee Eng	11,346,186	1,080,000	-	12,426,186
Dato' Ab. Halim bin Mohyiddin	1,362,500	-	-	1,362,500
Gan Siew Liat	4,197,500	-	-	4,197,500
Chew Fook Sin	3,057,300	-	-	3,057,300
Shareholdings in which Directors have indirect interests in the Company				
Lee Swee Eng	223,110,460	5,767,100	-	228,877,560
Gan Siew Liat	223,110,460	5,767,100	-	228,877,560
Chew Fook Sin	17,960,727	-	-	17,960,727

Directors' interests in shares (continued)

	Number of ordinary shares of USD 1 each			
	At 1.1.2011	Bought	Sold	At 31.12.2011
Shareholdings in which a Director has direct interest in a subsidiary - KPS Technology & Engineering LLC				
Lee Swee Eng	100,000	-	-	100,000

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

None of the other Directors holding office at 31 December 2011 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salaries of full time employees of the Company or of related corporation) 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 were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the year.

Share buy-back

On 29 June 2011, 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 repurchased 3,443,900 of its issued ordinary shares of RM1.00 each listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM2.55 per share. The total consideration paid was RM8,782,698 including transaction costs of RM30,283. The repurchase was financed by internally generated funds. The shares repurchased are retained as treasury shares. None of the treasury shares were resold or cancelled during the financial year.

As at 31 December 2011, the Company held 23,241,275 ordinary shares of RM1.00 each as treasury shares out of its total issued and paid-up share capital. Hence, the number of outstanding shares issued and paid-up after deducting treasury shares as at 31 December 2011 is 977,851,318 ordinary shares of RM1.00 each. The treasury shares have no rights to voting, dividends or participation in other distributions.

Subsequent to the financial year end, the Company repurchased 10,000 of its own shares for a total cash consideration of RM9,570 from the open market.

Other statutory information

Before the statements of comprehensive income and statements of financial position 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

Other statutory information (continued)

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

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

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

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

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

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

In the opinion of the Directors, other than the provision for foreseeable losses incurred by the Group as disclosed in the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2011 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 33 to the financial statements.

Events subsequent to year end

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

Auditors

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

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

....

Dato' Ab. Halim bin Mohyiddin

....

Lee Swee Eng

Kuala Lumpur,

Date: 30 April 2012

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Statements of financial position as at 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Assets					
Property, plant and equipment	3	744,824	748,722	-	-
Goodwill	4	798,507	798,974	-	-
Other intangible asset	4	594,641	620,858	-	-
Interests in subsidiaries	5	-	-	1,611,333	1,131,333
Investments in associates	6	45	455	-	-
Investments in jointly-controlled entities	7	5,882	316	40	-
Other investments, including derivatives	8	14,088	3,620	-	-
Deferred tax assets	9	279,922	195,946	119	-
Amount due from a subsidiary	10	-	-	351,330	351,330
Total non-current assets		2,437,909	2,368,891	1,962,822	1,482,663
Other investment, including derivatives	8	20,584	16,331	-	-
Inventories	11	72,120	69,063	-	-
Current tax assets		30,969	55,224	-	-
Trade and other receivables	12	953,858	718,406	16,838	184,514
Cash and cash equivalents	13	416,429	296,237	622	3,777
Total current assets		1,493,960	1,155,261	17,460	188,291
Total assets		3,931,869	3,524,152	1,980,282	1,670,954
Equity					
Share capital		1,001,093	1,001,093	1,001,093	1,001,093
Share premium		319,426	319,426	319,426	319,426
Treasury shares		(53,371)	(44,588)	(53,371)	(44,588)
Reserves		337,907	442,510	13,104	39,319
Total equity attributable to owners of the Company	14	1,605,055	1,718,441	1,280,252	1,315,250
Non-controlling interests		7,021	12,328	-	-
Total equity		1,612,076	1,730,769	1,280,252	1,315,250

Statements of financial position as at 31 December 2011

(continued)

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Liabilities					
Loans and borrowings	15	366,390	380,493	250,950	250,950
Long term payables	16	20,702	25,552	-	-
Long service leave liability		2,366	1,911	-	-
Deferred tax liabilities	9	238,042	265,928	-	-
Total non-current liabilities		627,500	673,884	250,950	250,950
Loans and borrowings	15	777,894	664,641	100,380	100,380
Current tax liabilities		6,075	7,938	199	721
Deferred income	17	390,160	57,346	-	-
Trade and other payables, including derivatives	18	518,164	389,574	348,501	3,653
Total current liabilities		1,692,293	1,119,499	449,080	104,754
Total liabilities		2,319,793	1,793,383	700,030	355,704
Total equity and liabilities		3,931,869	3,524,152	1,980,282	1,670,954

The notes on pages 17 to 121 are an integral part of these financial statements.

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Statements of comprehensive income for the year ended 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Revenue					
Contract revenue		1,963,778	1,556,975	-	-
Sales of goods and services		-	2,128	-	-
Management fees		-	-	4,589	3,336
Dividend income		-	-	-	25,000
		1,963,778	1,559,103	4,589	28,336
Cost of sales					
Contract costs recognised as an expense		(1,776,612)	(1,264,550)	-	-
Cost of goods sold and services		-	(1,195)	-	-
		(1,776,612)	(1,265,745)	-	-
Gross profit		187,166	293,358	4,589	28,336
Administration expenses		(216,001)	(203,194)	(5,092)	(5,962)
Other income		27,460	61,769	1,232	-
Other operating expenses		(105,469)	(54,749)	(474)	(53)
Results from operating activities	19	(106,844)	97,184	255	22,321
Finance costs	21	(52,190)	(54,193)	(19,494)	(19,817)
Finance income		3,632	3,282	22,897	23,194
Share of (loss)/profit of equity accounted investees, net of tax		(480)	237	-	-
(Loss)/Profit before tax		(155,882)	46,510	3,658	25,698
Tax expense	22	62,100	75,963	(530)	(1,323)
(Loss)/Profit for the year		(93,782)	122,473	3,128	24,375

Statements of comprehensive income for the year ended 31 December 2011

(Continued)

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
(Loss)/Profit for the year		(93,782)	122,473	3,128	24,375
Other comprehensive income/(expense)					
Foreign currency translation differences for foreign operations		9,174	(132,712)	-	-
Net investment in subsidiary		13,232	(259,056)	-	-
Cash flow hedge		(3,659)	4,761	-	-
Impairment of previously revalued property, plant and equipment		(4,353)	-	-	-
Share of other comprehensive income of equity accounted investees		157	-	-	-
Total other comprehensive income/(expense) for the year, net of tax		14,551	(387,007)	-	-
Total comprehensive (expense)/income for the year		(79,231)	(264,534)	3,128	24,375
(Loss)/Profit attributable to:					
Owners of the Company		(91,766)	118,201	3,128	24,375
Non-controlling interests		(2,016)	4,272	-	-
(Loss)/Profit for the year		(93,782)	122,473	3,128	24,375
Total comprehensive (expense)/income attributable to:					
Owners of the Company		(75,260)	(268,141)	3,128	24,375
Non-controlling interests		(3,971)	3,607	-	-
Total comprehensive (expense)/income for the year		(79,231)	(264,534)	3,128	24,375
Basic (loss)/earnings per ordinary share (sen)	23	(9.38)	12.02		

The notes on pages 17 to 121 are an integral part of these financial statements.

KNM Group Berhad

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

and its subsidiaries

Statements of changes in equity for the year ended 31 December 2011

Group	Note	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Hedging Reserve RM'000	Fair value Reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling Interest RM'000	Total equity RM'000
		← Attributable to owners of the Company →										
		← Non-distributable							→ Distributable			
At 1 January 2010		1,001,093	319,426	(34,132)	44,584	(140,316)	(6,274)	30	812,627	1,997,038	3,046	2,000,084
Foreign currency translation differences for foreign operations		-	-	-	-	(132,047)	-	-	-	(132,047)	(665)	(132,712)
Hedge of net investment		-	-	-	-	(259,056)	-	-	-	(259,056)	-	(259,056)
Cash flow hedge		-	-	-	-	-	4,761	-	-	4,761	-	4,761
Total other comprehensive income for the year		-	-	-	-	(391,103)	4,761	-	-	(386,342)	(665)	(387,007)
Profit for the year		-	-	-	-	-	-	-	118,201	118,201	4,272	122,473
Total comprehensive income for the year		-	-	-	-	(391,103)	4,761	-	118,201	(268,141)	3,607	(264,534)
Increase in share capital in subsidiaries		-	-	-	-	-	-	-	-	-	6,288	6,288
Share buy-back		-	-	(10,456)	-	-	-	-	-	(10,456)	-	(10,456)
Dividend to non-controlling interests		-	-	-	-	-	-	-	-	-	(613)	(613)
Total (distribution to)/contribution from owners		-	-	(10,456)	-	-	-	-	-	(10,456)	5,675	(4,781)
At 31 December 2010		1,001,093	319,426	(44,588)	44,584	(531,419)	(1,513)	30	930,828	1,718,441	12,328	1,730,769
		Note 14.1		Note 14.2	Note 14.3	Note 14.4	Note 14.5	Note 14.6				

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Statements of changes in equity for the year ended 31 December 2011

(Continued)

		Attributable to owners of the Company										
		Non-distributable							*Distributable*			
Group	Note	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Hedging Reserve RM'000	Fair value Reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling Interests RM'000	Total equity RM'000
At 1 January 2011		1,001,093	319,426	(44,588)	44,584	(531,419)	(1,513)	30	930,828	1,718,441	12,328	1,730,769
Foreign currency translation differences for foreign operations		-	-	-	-	11,129	-	-	-	11,129	(1,955)	9,174
Hedge of net investment		-	-	-	-	13,232	-	-	-	13,232	-	13,232
Cash flow hedge		-	-	-	-	-	(3,659)	-	-	(3,659)	-	(3,659)
Impairment of previously revalued property, plant and equipments		-	-	-	(4,353)	-	-	-	-	(4,353)	-	(4,353)
Share of other comprehensive income of equity accounted investees		-	-	-	-	157	-	-	-	157	-	157
Total other comprehensive income for the year		-	-	-	(4,353)	24,518	(3,659)	-	-	16,506	(1,955)	14,551
Loss for the year		-	-	-	-	-	-	-	(91,766)	(91,766)	(2,016)	(93,782)
Total comprehensive income for the year		-	-	-	(4,353)	24,518	(3,659)	-	(91,766)	(75,260)	(3,971)	(79,231)
Increase in share capital in subsidiaries		-	-	-	-	-	-	-	-	-	(1,336)	(1,336)
Share buy-back		-	-	(8,783)	-	-	-	-	-	(8,783)	-	(8,783)
Dividend to owners of the Company		-	-	-	-	-	-	-	(29,343)	(29,343)	-	(29,343)
Total distribution to owners		-	-	(8,783)	-	-	-	-	(29,343)	(38,126)	(1,336)	(39,462)
At 31 December 2011		1,001,093	319,426	(53,371)	40,231	(506,901)	(5,172)	30	809,719	1,605,055	7,021	1,612,076
		Note 14.1		Note 14.2	Note 14.3	Note 14.4	Note 14.5	Note 14.6				

The notes on pages 17 to 121 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2011

		Attributable to owners of the Company				
		Non-distributable			Distributable	
Company	Note	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2010		1,001,093	319,426	(34,132)	14,944	1,301,331
Total comprehensive income for the year		-	-	-	24,375	24,375
Share buy-back		-	-	(10,456)	-	(10,456)
Total distribution to owners		-	-	(10,456)	-	(10,456)
At 31 December 2010/1 January 2011		1,001,093	319,426	(44,588)	39,319	1,315,250
Total comprehensive income for the year		-	-	-	3,128	3,128
Share buy-back		-	-	(8,783)	-	(8,783)
Dividends to owners of the Company		-	-	-	(29,343)	(29,343)
Total distribution to owners		-	-	(8,783)	(29,343)	(38,126)
At 31 December 2011		1,001,093	319,426	(53,371)	13,104	1,280,252
		Note 14.1		Note 14.2	Note 14.7	

The notes on pages 17 to 121 are an integral part of these financial statements.

KNM Group Berhad

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

and its subsidiaries

Statements of cash flows for the year ended 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Cash flows from operating activities					
(Loss)/Profit before tax		(155,882)	46,510	3,658	25,698
Adjustments for:					
Amortisation of intangible assets		33,401	33,506	-	-
Depreciation of property, plant and equipment		10,649	7,788	-	-
Dividend income		-	-	-	(25,000)
Gain on disposal of property, plant and equipment		(70)	(26)	-	-
(Gain)/Loss on foreign exchange - unrealised		5,791	(3,091)	-	-
Interest expenses		49,008	48,963	19,493	19,723
Interest income		(3,632)	(3,282)	(22,897)	(23,194)
Impairment loss on goodwill		2,794	-	-	-
Provision for foreseeable losses		50,376	4,943	-	-
Share of loss/(profit) in associates and jointly-controlled entities		480	(237)	-	-
Change in fair value of forward contract		3,802	(13,577)	475	-
Operating (loss)/profit before changes in working capital		(3,283)	121,497	729	(2,773)
Changes in working capital:					
Inventories		(3,057)	37,509	-	-
Trade and other receivables		(233,687)	54,909	(2,727)	1,306
Trade and other payables		442,148	(66,915)	186	(4,062)
Cash generated from/(used in) operations		202,121	147,000	(1,812)	(5,529)
Tax paid		(21,784)	(93,251)	(1,171)	(579)
Interest paid		(2,540)	(1,622)	-	-
Interest received		3,632	3,282	22,897	23,194
Net cash generated from operating activities		181,429	55,409	19,914	17,086

Statements of cash flows for the year ended 31 December 2011

(Continued)

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Cash flows from investing activities					
Acquisition of other intangible assets		(3,892)	(1,725)	-	-
Deemed acquisition of non-controlling interest due to fair value adjustment		-	837	-	-
Acquisition of property, plant and equipment	(ii)	(48,755)	(56,350)	-	-
Acquisition of subsidiaries, net of cash acquired	32	(940)	-	-	-
Advances from subsidiary companies		-	-	34,590	39,740
Investment in jointly-controlled entity		(5,287)	(337)	(40)	-
Investment in associates companies		(43)	-	-	-
Investment in subsidiary companies		-	-	-	(610)
Investment in Redeemable Convertible Preference Shares		(10,000)	-	-	-
Proceeds from disposal of property, plant and equipment		2,601	1,080	-	-
Dividend received		-	-	-	25,000
Proceeds from issuance of share to non-controlling interests		-	6,288	-	-
Net cash (used in)/generated from investing activities		(66,316)	(50,207)	34,550	64,130
Cash flows from financing activities					
Dividend paid to shareholders of the Company		(29,343)	-	(29,343)	-
Finance charges/Interest paid		(46,468)	(47,341)	(19,493)	(19,723)
Proceeds from CP/MTN		-	85,000	-	-
Repayment of CP/MTN		(75,000)	(90,000)	-	-
Net proceeds from bills payable		133,281	9,041	-	-
Net prepayment of finance lease liabilities		(10,115)	(5,596)	-	-
Net proceeds/(repayment) of term loans and revolving credit		29,783	(208,321)	-	(175,665)
Share buy-back		(8,783)	(10,456)	(8,783)	(10,456)
Dividend paid to non-controlling interests		-	(613)	-	-
Net cash used in financing activities		(6,645)	(268,286)	(57,619)	(205,844)
Net increase/(decrease) in cash and cash equivalents		108,468	(263,084)	(3,155)	(124,628)
Cash and cash equivalents at 1 January		290,699	553,783	3,777	128,405
Cash and cash equivalents at 31 December	(i)	399,167	290,699	622	3,777

Statements of cash flows for the year ended 31 December 2011
(Continued)

Notes to statements of cash flows:

(i) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	341,381	211,390	622	518
Deposits with licensed banks and financial institutions	75,048	84,847	-	3,259
Bank overdrafts	(17,262)	(5,538)	-	-
	399,167	290,699	622	3,777

(ii) Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM58,232,000 (2010: RM68,538,000), of which RM9,477,000 (2010: RM12,188,000) was acquired by means of hire purchase.

(iii) Non cash transactions

Investing activities

During the financial year, the Company increased its investment in its subsidiaries by RM480,000,000 (2010: RM610,000) of which RM480,000,000 (2010: Nil) was through capitalisation of debts.

The notes on pages 17 to 121 are an integral part of these financial statements.

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Notes to the financial statements

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interest in associates and jointly-controlled entities. The financial statements of the Company as at and for the year ended 31 December 2011 do not include other entities.

The Company is principally engaged in investment holding activities and provision of management services, whilst the principal activities of the subsidiaries are as stated in Note 31 to the financial statements.

The financial statements were authorised for issue by the Board of Directors on 30 April 2012.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The following accounting standards, amendments and interpretations of the FRS framework have been issued by the Malaysian Accounting Standards Board (MASB) are not effective and not adopted for the Group and the Company in the current reporting financial year.

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*
- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures* (revised)
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
- Amendments to FRS 112, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits* (2011)
- FRS 127, *Separate Financial Statements* (2011)
- FRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to FRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- FRS 9, *Financial Instruments* (2009)
- FRS 9, *Financial Instruments* (2010)
- Amendments to FRS 7, *Financial Instruments: Disclosures – Mandatory Date of FRS 9 and Transition Disclosures*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The Group's and the Company's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") issued by the MASB and International Financial Reporting Standards ("IFRSs"). As a result, the Group and the Company will not be adopting the above FRSs, Interpretations and amendments.

(b) Basis of measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis except as disclosed in the notes to the financial statements and on the assumption that the Group and the Company are going concerns.

i) The Group incurred a net loss of RM93,782,000 for the year ended 31 December 2011 and, as of that date, the current liabilities of the Group and of the Company exceeded their current assets by RM198,333,000 and RM431,620,000 respectively;

ii) As disclosed in Note 15.6 to the financial statements, the Group and the Company fell short of certain prescribed financial covenant ratios required by certain lending institutions.

   The above mentioned financial covenants are computed based on the audited financial statements for the year ended 31 December 2011. The Directors have prior to concluding the issuance of this set of financial statements engaged the affected financial institutions and have obtained written indulgence on the short compliance and/or waiver of accelerated repayment demand.

The Group will continue to engage its financiers to plan and to rebalance the Group's loan maturity profile to further eliminate or reduce its liquidity risk. In addition, to address the near term liquidity risk, the Board of Directors approved for the Company to undertake a proposed fund raising exercise involving a rights issuance of RM200million on 28 April 2012. The Directors have a reasonable expectation that the Group and the Company have adequate resources to overcome its short-term liquidity challenges. For these reasons, the Group and the Company continues to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements of the Group and the Company do not include any adjustments relating to the recoverability of recorded assets amount and classification of assets and liabilities should the going concern basis of preparation of financial statements be inappropriate.

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 financial statements in conformity with FRSs 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 amount recognised in the financial statements other than those disclosed in the following note:

- *Note 3* - *Revaluation of property and depreciation of plant and machinery*
- *Note 4* - *Measurement of the recoverable amounts of the cash-generating units*
- *Note 9* - *Recognition of unutilised tax losses and unabsorbed capital allowances*
- *Note 12* - *Impairment of trade and other receivables*
- *Note 12.1* - *Construction work-in-progress*

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the period 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 unincorporated entities, controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 cost.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

(ii) Accounting for 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.

The Group has changed its accounting policy with respect to accounting for business combinations.

From 1 January 2011 the Group has applied FRS 3, *Business Combination (revised)* in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures 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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Accounting for business combinations (continued)

Acquisitions on or after 1 January 2011 (continued)

- 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.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related acquisition, 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.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchange for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 January 2006 and 1 January 2011

For acquisitions between 1 January 2006 and 1 January 2011, goodwill represents the excess of the cost of acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Accounting for business combinations (continued)

Acquisitions prior to 1 January 2006

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

(iii) Accounting for acquisitions of non-controlling interests

The Group treats all changes in 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 changes, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Loss of control

The Group applied FRS 127, *Consolidated and Separate Financial Statements (revised)* since the beginning of the reporting period in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share. Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous 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.

In the previous years, if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be regarded as cost on initial measurement of the investment.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Associates

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

Investment 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 equity accounted 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.

When the Group's share of losses exceeds its interest in an equity accounted 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 investee.

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

(vi) Jointly-controlled entities

A jointly-controlled entity is an entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investment in jointly-controlled entities 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 included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the profit or loss of the equity accounted jointly-controlled entity, after adjustments if any, to align the accounting policies with those of the Group, from the date that joint-control commences until the date that joint-control ceases.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vi) Jointly-controlled entities (continued)

When the Group's share of losses exceeds its interest in an equity accounted jointly-controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to nil 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 jointly-controlled entity.

Investments in jointly-controlled entities are stated in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or include in a disposal group that is classified as held for sale.

(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 comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Since the beginning of the reporting period, the Group has applied FRS 127, *Consolidated and Separate Financial Statements (revised)* where 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. This change in accounting policy is applied prospectively in accordance with the transitional provisions of the standard and does not have impact on earnings per share.

In the previous years, where losses applicable to the non-controlling interests exceed their interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, are charged against the Group's interest except to the extent that the non-controlling interests had a binding obligation to, and was able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest was allocated with all such profits until the non-controlling interests' share of losses previously absorbed by the Group has been recovered.

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 are eliminated against the investment to the extent of the Group's interest in the associates. 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 date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the end of 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 cash flow hedge of currency risk, which are recognised in other comprehensive income.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

The assets and liabilities of operations 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, except for goodwill and fair value adjustments arising from business combinations before 1 January 2006 which are reported using the exchange rates at the dates of the acquisitions. 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 foreign currency translation reserve (FCTR) 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 control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, 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.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely 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 FCTR within equity.

2. Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition and measurement

A financial assets 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 at 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 designated and effective hedging instrument) 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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

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

(c) Available-for-sale financial assets

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

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

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment. (See note 2(j)(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 held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial liabilities (continued)

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

Other financial 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.

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

(iv) Regular way purchase or sale of financial assets

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

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(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 other comprehensive income 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.

(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 the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vi) Derecognition (continued)

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

The Group revalues its freehold 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 and buildings are stated at Directors' valuation based on professional valuations on the open market basis conducted in December 2009. The next valuation is expected to be in 2014.

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

Cost includes expenditures that are directly attributable to the acquisition of the asset, 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 includes the cost of materials and direct labour and for qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement costs when appropriate.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "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 part 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 part will flow to the Group and its cost can be measured reliably. The carrying amount of these parts that are replaced is derecognised. 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 calculated over depreciable amount, which is the case of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. 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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

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, and adjusted as appropriate at end of the reporting period.

(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. On initial recognition of the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset

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

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

2. Significant accounting policies (continued)

(e) Leased assets (continued)

(ii) Operating lease

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

Payment made under operating leases are recognised in profit or loss on straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. 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 and is measured at cost less any accumulated impairment losses. In respect of equity accounted investees, 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 investee.

(ii) Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group, which have finite useful lives, are stated 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.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Subsequent expenditure

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

(iv) Amortisation

Goodwill and intangible assets with indefinite useful lives are 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 of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives 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) Inventories

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

The cost of raw materials, tools and consumables and merchandise for resale is determined on a first-in first-out principle and includes the cost of direct materials and incidental costs in bringing these inventories 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.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

2. Significant accounting policies (continued)

(h) Constructions work-in-progress

Constructions work-in-progress represent 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 "deferred income" in the statement of financial position.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and financial institutions. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(j) Impairment of assets

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries, associates and jointly-controlled entities) 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 equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

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.

2. Significant accounting policies (continued)

(j) Impairment of assets (Continued)

(i) Financial assets (continued)

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 the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised 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 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 is not reversed through profit or loss.

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

(ii) Other assets

The carrying amounts of other assets (except for inventories 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 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 groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

2. Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Other assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

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

Impairment losses are recognised in the profit or loss. Impairment loss recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of 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. 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 the profit or loss in the year in which the reversals are recognised.

(k) Equity instruments

All equity instruments are stated at cost on initial recognition and are not re-measured subsequently.

(i) Issue expenses

Incremental costs directly attributable to issue of equity instruments are recognised as a deduction from equity.

2. Significant accounting policies (continued)

(k) Equity instruments (continued)

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity and is not re-valued for subsequent changes in the fair value or market price of shares. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Where treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

Where treasury shares are reissued by re-sale in the open market, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(iii) Distributions of non-cash assets to owners of the Company

From 1 January 2011, the Group has applied IC 17, *Distributions of Non-cash Assets to Owners* in accounting for distributions of non-cash assets to owners of the Company. The new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting date and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

2. Significant accounting policies (continued)

(l) Employee benefits

(i) Short-term employee benefits

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

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

The Group's contributions to the statutory pension funds are charged to the profit or loss in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) 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.

(m) 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 expenses are recognised in the 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 future contract activity.

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

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

2. Significant accounting policies (continued)

(m) Revenue and other income (continued)

(ii) Dividend income

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

(iii) Management fee

Management fee is recognised on an accrual basis.

(iv) Services

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

(v) Goods sold

Revenue from the sale of goods 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 the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(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.

2. Significant accounting policies (continued)

(n) Borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, 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.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the 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 at the end of the reporting period, and any adjustment to tax payable in respect of previous 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 taxes 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 nor 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.

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 liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

2. Significant accounting policies (continued)

(o) Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which 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.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

(p) Earnings per ordinary share

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

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 for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if any.

(q) Operating segments

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. An operating segment's operating 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 assess its performance, and for which discrete financial information is available.

2. Significant accounting policies (continued)

(r) 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 benefit 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.

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 disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

3. Property, plant and equipment

Group	Land RM'000	Buildings RM'000	Building improve-ments 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 2010	72,465	423,757	7,087	442,852	13,529	59,959	47,705	1,067,354
Additions	-	13,865	1,592	38,906	508	9,125	4,542	68,538
Disposals	-	-	-	(1,633)	(293)	(70)	-	(1,996)
Reclassification	-	26,428	-	15,207	-	30	(41,665)	-
Effect of movements in exchange rates	(4,606)	(50,845)	(765)	(49,835)	(1,498)	(8,126)	(2,618)	(118,293)
At 31 December 2010/1 January 2011	67,859	413,205	7,914	445,497	12,246	60,918	7,964	1,015,603
Additions	2,781	2,881	725	24,022	648	10,969	16,206	58,232
Disposals	-	-	-	(349)	(831)	(37)	(1,872)	(3,089)
Written off	-	-	-	-	-	(2,735)	-	(2,735)
Acquisition through business combination (Note 32)	-	-	-	-	-	2	-	2
Effect of movements in exchange rates	(960)	5,256	2,075	2,583	(1,536)	4,094	(2,305)	9,207
At 31 December 2011	69,680	421,342	10,714	471,753	10,527	73,211	19,993	1,077,220

3. Property, plant and equipment (continued)

Group	Land RM'000	Buildings RM'000	Building improve-ments 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 2010								
Accumulated depreciation	1,060	-	3,015	182,934	9,739	34,590	-	231,338
Depreciation for the year	282	15,320	342	34,520	1,264	7,437	-	59,165
Disposals	-	-	-	(590)	(286)	(66)	-	(942)
Effect of movements in exchange rates	(50)	4,423	(245)	(20,719)	(1,135)	(4,954)	-	(22,680)
At 31 December 2010/1 January 2011								
Accumulated depreciation	1,292	19,743	3,112	196,145	9,582	37,007	-	266,881
Depreciation for the year	279	15,122	697	35,849	811	8,071	-	60,829
Disposals	-	-	-	(37)	(511)	(10)	-	(558)
Written off	-	-	-	-	-	(2,735)	-	(2,735)
Impairment Loss	4,353	-	-	-	-	-	-	4,353
Effect of movements in exchange rates	71	501	1,925	685	(682)	1,126	-	3,626
At 31 December 2011								
Accumulated depreciation	1,642	35,366	5,734	232,642	9,200	43,459	-	328,043
Accumulated impairment loss	4,353	-	-	-	-	-	-	4,353
	5,995	35,366	5,734	232,642	9,200	43,459	-	332,396
Carrying amounts								
At 1 January 2010	71,405	423,757	4,072	259,918	3,790	25,369	47,705	836,016
At 31 December 2010/1 January 2011	66,567	393,462	4,802	249,352	2,664	23,911	7,964	748,722
At 31 December 2011	63,685	385,976	4,980	239,111	1,327	29,752	19,993	744,824

3. Property, plant and equipment (continued)

3.1 Depreciation charge for the year is allocated as follows:

	Group	
	2011	**2010**
	RM'000	**RM'000**
Income statement (Note 19)	10,649	7,788
Construction work-in-progress (Note 12.1)	50,180	51,377
	60,829	59,165

3.2 Revaluation

Freehold land and buildings are stated at Directors' valuation based on professional valuations on the open market basis conducted in December 2009 by chartered surveyors in W.M. Malik & Kamaruzaman, C.H. Williams Talhar & Wong, Jiangsu Zhongda Real Estate Appraisal & Consultation Co. Ltd., PT Duta Perkasa Propertindo, Cluttons LLC, Suncorp Valuations Ltd., Gabetti Property Solutions Franchising Agency, PWC AG WPG and CPCON Gestao Patrimonial.

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

	Group	
	2011	**2010**
	RM'000	**RM'000**
Freehold land	25,868	25,390
Buildings	381,530	379,261
	407,398	404,651

3.3 Security

Certain freehold land and buildings of the Group costing/valued at RM98,902,000 (2010: RM88,461,000) in subsidiaries are charged to certain licensed banks as security for credit facilities granted to the subsidiaries (Note 15).

3. Property, plant and equipment (continued)

3.4 Land

Included in the carrying amounts of land are:

	Group	
	2011	2010
	RM'000	RM'000
Leasehold land		
- Unexpired period less than 50 years	12,269	11,177
- Unexpired period more than 50 years	12,157	12,256
Freehold land	39,259	43,134
	63,685	66,567

Included herein leasehold lands that are in substance is a finance lease.

3.5 Assets acquired under finance lease

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

	Group	
	2011	2010
	RM'000	RM'000
Freehold land	4,923	4,906
Building	4,960	5,156
Plant and machineries	23,972	14,022
Furniture, fittings and equipment	-	157
Motor vehicle	-	19
Capital work-in-progress	-	229
	33,855	24,489

4. Intangible asset

Group	Note	Goodwill RM'000	Other intangible assets RM'000	Total RM'000
Cost				
At 1 January 2010		955,173	876,044	1,831,217
Additions		-	1,725	1,725
Purchase consideration adjustment		(837)	-	(837)
Effect of movements in exchange rates		(155,362)	(147,307)	(302,669)
At 31 December 2010 / 1 January 2011		798,974	730,462	1,529,436
Additions		-	3,892	3,892
Acquisitions through business combination	32	2,794	-	2,794
Effect of movements in exchange rates		(467)	2,459	1,992
At 31 December 2011		801,301	736,813	1,538,114
Amortisation and impairment loss				
At 1 January 2010				
Accumulated amortisation		-	(93,374)	(93,374)
Amortisation for the year		-	(33,506)	(33,506)
Effect of movements in exchange rates		-	17,276	17,276
At 31 December 2010/1 January 2011				
Accumulated amortisation		-	(109,604)	(109,604)
Amortisation for the year		-	(33,401)	(33,401)
Impairment loss		(2,794)	-	(2,794)
Effect of movements in exchange rates		-	833	833
At 31 December 2011				
Accumulated amortisation		-	(142,172)	(142,172)
Accumulated impairment loss		(2,794)	-	(2,794)
		(2,794)	(142,172)	(144,966)
Carrying amounts				
At 1 January 2010		955,173	782,670	1,737,843
At 31 December 2010 / 1 January 2011		798,974	620,858	1,419,832
At 31 December 2011		798,507	594,641	1,393,148
		Note 4.1	Note 4.2	

4. Intangible asset (continued)

4.1 Goodwill

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

4.2 Other intangible assets

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

4.3 Amortisation and impairment charge

Amortisation of technology and customers related intangible assets is included in other operating expenses in the 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 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 follow:

	Group	
	2011	2010
	RM'000	RM'000
Australia unit	6,672	6,672
Germany unit	758,721	756,187
Brazil unit	33,114	36,115
Total	798,507	798,974

The recoverable amounts of the cash-generating units were based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of not higher than the inflation rate of respective unit above.

4. Intangible asset (continued)

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

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

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

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

	2011	2010
Germany unit	10%	10%
Australia unit	12%	9%
Brazil unit	22%	24%

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

The above estimates are particularly sensitive in the following areas:

- An increase of 0.25% in the discount rate used for Germany unit would result in an impairment loss of RM39.8million.
- A decrease of 0.3% in estimated growth rate in cash flow beyond 5 years period used for Germany unit would result in an impairment loss of RM41.8million.

5. Interests in subsidiaries

	Company	
	2011 RM'000	2010 RM'000
Unquoted shares - at cost	518,796	38,796
Amount due from subsidiaries	1,092,537	1,092,537
	1,611,333	1,131,333

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

Details of the subsidiaries are shown in Note 31 to the financial statements.

6. Investments in associates

	Group 2011 RM'000	Group 2010 RM'000
Unquoted shares - at cost	196	2,350
Less: Impairment loss	-	(697)
Effect of movement in exchange rates	5	(296)
	201	1,357
Reclassified to other investment	-	(1,374)
Additions	43	214
Share of post-acquisition reserve	(199)	258
	45	455

Details of the associates are as follows:

Name of Company	Country of Incorporation	Principal Activities	Effective Ownership Interest 2011	Effective Ownership Interest 2010
KNM-DP Fabricators Sdn. Bhd.	Malaysia	Dormant.	-	28%
Kimma Thai Co. Ltd.	Thailand	Investment holding.	49%	49%
Dimensi Bumijaya Sdn. Bhd.	Malaysia	Dormant.	40%	-
Energy Park Investment Limited	United Kingdom	Investment holding.	49%	-
Subsidiary of KNM-DP Fabricators Sdn. Bhd.				
KNM-DP Harta Bina Sdn. Bhd.	Malaysia	Dormant.	-	65%
Subsidiary of Kimma Thai Co. Ltd.				
KNM Projects (Thailand) Co. Ltd.	Thailand	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.	74%	74%

6. Investments in associates (continued)

Name of Company	Country of Incorporation	Principal Activities	Effective Ownership Interest 2011	Effective Ownership Interest 2010
Subsidiary of Energy Park Investment Limited				
Energy Park Peterborough Limited	United Kingdom	Dormant.	49%	-

Summary financial information on associates:

Group 2011	Revenues (100%) RM'000	(Loss) / Profit (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
Kimma Thai Co. Ltd.**	6	(3)	220	223
KNM Project (Thailand) Co. Ltd.**	15,636	(1,316)	7,750	8,236
Dimensi Bumijaya Sdn. Bhd.	-	(5)	100	5
Energy Park Investment Limited^	-	-	5	-
Energy Park Peterborough Limited^	-	-	-	-
	15,642	(1,324)	8,075	8,464
2010				
KNM-DP Fabricators Sdn. Bhd. ^	-	(7)	99	3,407
KNM-DP Harta Bina Sdn. Bhd. ^	-	(2)	13	5
Kimma Thai Co. Ltd.**	-	(14)	224	230
KNM Project (Thailand) Co. Ltd.**	5,360	541	2,266	1,329
	5,360	518	2,602	4,971

** Audited by another firm of accountants.

^ Based on management accounts as at 31 December 2010/31 December 2011.

During the financial year, the equity interest of the Group in KNM-DP Fabricators Sdn. Bhd. has increased from 28% to 86% and the Group has obtained control over the entity. Hence the entity has been classified as a subsidiary.

7. Investments in jointly-controlled entities

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unquoted shares - at cost	6,124	837	40	-
Share of loss post acquisition reserve	(363)	(497)	-	-
Effect of movements in exchange rates	121	(24)	-	-
	5,882	316	40	-

Details of the jointly-controlled entities are as follows:

Name of Company	Country of Incorporation	Principal Activities	Effective Ownership Interest 2011	Effective Ownership Interest 2010
KPN Gas Technology Sdn. Bhd.	Malaysia	Provision of project management, process management process know how, engineering, procurement, construction, commissioning, start-up, operation, spare parts and maintenance for the field gas separation and gas treatment facilities including desalting, gas dehydration, gas sweetening, natural gas liquids recovery, sulphur recovery and modular units.	50%	50%
Verwater KNM Sdn. Bhd.	Malaysia	Involved in the business of relocating and jacking of tank catalyst change-out and chemical cleaning work.	50%	50%
KNM Grinaker-LTA (Proprietary) Limited	Republic of South Africa	Manufacture of process and pressure vessels, heat transfer equipment, industrial boilers, tank farms, process skids and modules for Republic of South Africa market and on a case to case basis for other markets.	49.9%	49.9%
Petrosab Petroleum Sdn. Bhd *(formerly known as KNM Petrosab Sdn. Bhd.)*	Malaysia	Dormant.	40%	50%

7. Investments in jointly-controlled entities (continued)

Name of Company	Country of Incorporation	Principal Activities	Effective Ownership Interest 2011	2010
Subsidiary of Petrosab Petroleum Sdn. Bhd. (formerly known as KNM Petrosab Sdn. Bhd.)				
KNM Petrosab Engineering Sdn. Bhd.	Malaysia	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.	52%	50%

The Group's aggregate share of the asset and liabilities of jointly-controlled entities are as follows:

	Group 2011 RM'000	2010 RM'000
Non-current assets	7,972	89
Current assets	16,220	2,154
Non-current liabilities	(37)	(79)
Current liabilities	(18,237)	(2,516)
Effect of movements in exchange rates	(36)	-
Share of net asset/(liabilities) of jointly-controlled entities	5,882	(352)

The Group's aggregate share of the revenue and expenses of jointly-controlled entities are as follows:

	Group 2011 RM'000	2010 RM'000
Revenue	20,954	1,862
Expenses	(20,322)	(2,501)
Share of net profit/(loss) of jointly-controlled entities	632	(639)

The Group's share of the cumulative losses of KPN Gas Technology Sdn. Bhd. amounting to Nil (2010 - RM668,000) has not been recognised in the Group's profit or loss using equity method because the Group's share of losses of the jointly-controlled entity exceeded the carrying amount of its investment in the jointly-controlled entity.

8. Other investments, including derivatives

	Total RM'000	Shares Unquoted RM'000	Club Membership RM'000	Redeemable Convertible Preference Shares RM'000	Derivatives RM'000
2011					
Non current					
Available-for-sale financial asset	4,088	3,988	100	-	-
Loans and receivables	10,000	-	-	10,000	-
	14,088	3,988	100	10,000	-
Current					
Financial assets at fair value through profit or loss:-					
- Held for Trading, which relates to forward foreign exchange contracts ("FFEC")	17,836	-	-	-	17,836
Derivatives designated as hedging instruments	2,748	-	-	-	2,748
	20,584	-	-	-	20,584
	34,672	3,988	100	10,000	20,584
Representing items:					
At cost	13,988	3,988	-	10,000	-
At fair value	20,684	-	100	-	20,584
	34,672	3,988	100	10,000	20,584
2010					
Non current					
Available-for-sale financial asset	3,620	3,520	100	-	-
Current					
Financial assets at fair value through profit or loss:-					
- Held for Trading, which relates to forward foreign exchange contracts ("FFEC")	15,330	-	-	-	15,330
Derivatives designated as hedging instruments	1,001	-	-	-	1,001
	16,331	-	-	-	16,331
	19,951	3,520	100	-	16,331
Representing items:					
At cost	3,520	3,520	-	-	-
At fair value	16,431	-	100	-	16,331
	19,951	3,520	100	-	16,331

9. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	3,004	2,025	(44,605)	(31,870)	(41,601)	(29,845)
Revaluation	-	-	(240,455)	(206,696)	(240,455)	((206,696)
Provisions	17,580	21,251	-	-	17,580	21,251
Other items	11,086	19,110	(5,392)	(59,220)	5,694	(40,110)
Tax loss carry-forward and unutilised capital allowance	300,662	185,418	-	-	300,662	185,418
Tax assets/(liabilities)	332,332	227,804	(290,452)	(297,786)	41,880	(69,982)
Set off of tax	(52,410)	(31,858)	52,410	31,858	-	-
Net tax assets/(liabilities)	279,922	195,946	(238,042)	(265,928)	41,880	(69,982)
Company						
Other items	119	-	-	-	119	-

The tax loss carry-forward and unutilized capital allowances do not expire under current tax legislation except for tax loss carry-forward of RM11,646,547 (2010: RM8,368,620) relating to an overseas subsidiary which will expire after 5 years (from 2011) under the legislation of that country.

Unrecognised deferred tax assets

No deferred tax has been recognised for the following item:

	Group	
	2011	2010
	RM'000	RM'000
Tax loss carry-forward	128,644	77,537
Unutilised capital allowances	51	27

The above items do not expire under current tax legislation unless except for tax loss carry-forward of RM110,000 (2010: RM88,000) which will expire should there be a substantial change in shareholders (more than 50%). Deferred tax assets have not been recognised in respect of gross unutilised tax losses and gross unutilised capital allowances above because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

9. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

Group	At 1.1.2010 RM'000	Recognised in income statement (Note 22) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2010 RM'000	Recognised in income statement (Note 22) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2011 RM'000
Property, plant and equipment	(11,425)	(18,420)	-	(29,845)	(11,756)	-	(41,601)
Revaluation	(279,424)	36,569	36,159	(206,696)	(39,341)	5,582	(240,455)
Provisions	13,606	7,645	-	21,251	(3,671)	-	17,580
Other items	(50,752)	10,642	-	(40,110)	45,804	-	5,694
Tax loss carry-forward	96,674	88,744	-	185,418	115,244	-	300,662
	(231,321)	125,180	36,159	(69,982)	106,280	5,582	41,880
Company							
Other items	-	-	-	-	119	-	119
Provisions	333	(333)	-	-	-	-	-
	333	(333)	-	-	119	-	119

9. Deferred tax assets/(liabilities) (continued)

Key sources of estimation uncertainty

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimate of future cash flows. These depend on estimation of future contract generated and its related margins, operating and administrative costs, capital expenditure and other capital management transactions. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances may impact the amount of deferred tax assets recognised in the statements of financial position.

The carrying value of deferred tax assets of the Group at 31 December 2011 was RM280million (2010:RM196million) and this was mainly attributed from the recognised tax losses of a subsidiary. Based on the forecast future taxable profit, the recognised tax losses of the subsidiary is expected to be fully utilised within the next 8 years. A 5% reduction in the future taxable profit from the forecast future taxable profit will result in an extension of utilisation of these tax losses by another 2 years.

10. Amount due from a subsidiary

The amount due from a subsidiary relates to advances which is unsecured, not repayable within the next twelve months and bear interest of 2.25% (2010: 2.25%) per annum above cost of funds.

11. Inventories

	Group	
	2011	2010
	RM'000	RM'000
At cost:		
Raw materials	32,771	33,439
Tools and consumables	14,427	14,562
Work in progress	2,469	513
Merchandise for resale	-	242
	49,667	48,756
At net realisable value:		
Raw materials	21,266	14,611
Tools and consumables	1,187	5,696
	72,120	69,063

12. Trade and other receivables

		Group		Company	
	Note	2011	2010	2011	2010
		RM'000	RM'000	RM'000	RM'000
Trade					
Trade receivables		334,700	254,689	-	-
Amount due from contract customers	12.1	450,390	395,151	-	-
		785,090	649,840	-	-
Non-trade					
Amount due from					
- subsidiaries	12.2	-	-	9,341	179,744
- associates	12.2	4,148	1,088	14	13
- jointly-controlled entities	12.2	17,621	826	1,360	-
Other receivables		33,959	17,032	3,299	2,964
Deposits	12.3	6,642	9,413	3	23
Prepayment	12.4	106,398	40,207	2,821	1,770
		168,768	68,566	16,838	184,514
		953,858	718,406	16,838	184,514

12. Trade and other receivables (continued)

12.1 Construction work-in-progress

	Group 2011 RM'000	Group 2010 RM'000
Aggregate costs incurred to date	3,287,352	2,336,772
Add: Net attributable profits	666,340	536,931
Less: Foreseeable losses	(55,319)	(4,943)
	3,898,373	2,868,760
Less: Progress billings	(3,838,143)	(2,530,955)
	60,230	337,805
Deferred income (Note 17)	390,160	57,346
Amount due from contract customers	450,390	395,151

Additions to aggregate costs incurred during the year include:

	Group 2011 RM'000	Group 2010 RM'000
Depreciation of property, plant and equipment (Note 3.1)	50,180	51,377
Hire of plant and machineries	6,420	13,112
Rental of premises	6,475	15,422
Rental of machineries	146	144
Staff costs	213,379	161,216

12.2 Amount due from subsidiaries, associates and jointly-controlled entities

The amounts due from subsidiaries, associates and jointly-controlled entities are unsecured, interest free and repayable on demand except for RM143,283,000 due from a subsidiary in 2010 was subjected to interest of 1.30% to 2.50% per annum.

12.3 Deposits

Included in deposits of the Group are rental deposit for building of RM165,000 (2010: RM165,000) paid to a company in which certain directors have financial interest.

12. Trade and other receivables (continued)

12.4 Prepayments

Included in prepayment of the Group are advance payments to suppliers at RM96,852,000 (2010: RM31,390,000).

13. Cash and cash equivalents

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	341,381	211,390	622	518
Deposits with licensed banks	65,061	79,135	-	-
Deposits with other financial institutions	9,987	5,712	-	3,259
	416,429	296,237	622	3,777

14. Capital and reserves

14.1 Share capital

	Group and Company			
	2011		**2010**	
	Number of shares '000	**Amount RM'000**	**Number of shares '000**	**Amount RM'000**
Ordinary shares of RM1.00/ RM0.25* each				
Authorised:				
At 1 January	1,250,000	1,250,000	5,000,000*	1,250,000
Share Consolidation**	-	-	(3,750,000)	-
At 31 December	1,250,000	1,250,000	1,250,000	1,250,000
Ordinary shares of RM1.00/ RM0.25* each				
Issued and fully paid:				
At 1 January	1,001,093	1,001,093	4,004,370*	1,001,093
Movement during the year pursuant to:				
- Share Consolidation**	-	-	(3,003,277)	-
At 31 December	1,001,093	1,001,093	1,001,093	1,001,093

** Share consolidation of every four (4) ordinary shares of RM0.25 each into one (1) ordinary share of RM1.00 each.

14. Capital and reserves (continued)

14.2 Treasury shares

The shareholders of the Company, by a special resolution passed in the annual general meeting held on 29 June 2011, renewed the Company's plan to repurchase its own shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

During the financial year, the Company repurchased 3,443,900 (2010: 21,110,000 ordinary shares of RM0.25 each) of its issued ordinary shares of RM1.00 each listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM2.55 (2010: RM0.49 of RM0.25 each) per share. The total consideration paid was RM8,782,698 (2010: RM10,456,083) including transaction costs of RM30,283 (2010: RM28,083). The repurchase transactions were financed by internally generated funds.

As at 31 December 2011, the Company held 23,241,275 ordinary shares of RM1.00 (2010: 19,797,375 ordinary shares of RM1.00 each) as treasury shares out of its total issued and paid-up share capital. Hence, the number of outstanding shares in issued and paid-up after deducting treasury shares as at 31 December 2011 is 977,851,318 (2010: 981,295,218) ordinary shares of RM1.00 each. The shares repurchased are retained as treasury shares. None of the treasury shares held were resold or cancelled during the financial year.

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 buildings and land.

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. Capital and reserves (continued)

14.5 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.

14.6 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

14.7 Retained earnings

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its distributable reserves at 31 December 2011 if paid out as dividends.

The Finance Act 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining section 108 tax credit available to the Company until such time the credit is fully utilised or upon expiry of the six year transitional period on 31 December 2013, whichever is earlier.

15. Loans and borrowings

		Group 2011 RM'000	Group 2010 RM'000
Non-current			
Floating rate term loans	– secured	286,510	289,734
	– unsecured	19,739	15,838
Fixed rate term loans	– unsecured	1,517	1,862
Murabahah Commercial Paper (CP)/Medium Term Notes (MTN)	– unsecured	45,000	60,000
Floating rate finance lease liabilities		6,764	5,784
Fixed rate finance lease liabilities		6,860	7,275
		366,390	380,493
Current			
Bank overdrafts	– secured	17,262	5,293
	– unsecured	-	245
Bills payable	– unsecured	207,063	73,782
Floating rate term loans	– secured	104,103	107,390
	– unsecured	24,523	47,058
Fixed rate term loans	– secured	-	4,167
	– unsecured	3,649	5,473
Murabahah Commercial Paper (CP)/Medium Term Notes (MTN)	– unsecured	145,000	205,000
Revolving credit	– unsecured	270,816	209,552
Floating rate finance lease liabilities		4,277	5,559
Fixed rate finance lease liabilities		1,201	1,122
		777,894	664,641
		1,144,284	1,045,134

	Company 2011 RM'000	Company 2010 RM'000
Non-current		
Floating rate term loans - secured	250,950	250,950
Current		
Floating rate term loans - secured	100,380	100,380
	351,330	351,330

15. Loans and borrowings (continued)

15.1 The bank overdraft for the Malaysian's subsidiaries are subject to interest ranging from 0.50 % to 1.00% (2010: 0.50 % to 1.00%) above the lenders' base lending rate per annum whilst the bank overdraft for the overseas subsidiaries are subject to interest ranging from 14.52% to 24.60% (2010: 13.89% to 26.82%) per annum.

The bill payables are subject to interest ranging from 0.92% to 4.50% (2010: 0.83% to 3.71%) per annum.

In connection with the bank overdraft and trade facilities, the subsidiaries have agreed on the following significant covenants, among others:

(i) The Group debt to equity ratio shall not be more than 1.75 (2010: 1.75) times at all times.

(ii) The ratio of profit before interest and tax to interest expense of a subsidiary shall not be less than 2 (2010: 2) times at all times. In prior year, the relevant bank has had granted indulgence to the affected subsidiary for any breach of this ratio for a period of one year from April 2011.

(iii) Not to dispose 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).

(iv) Not to dispose or divest any of its material subsidiaries.

(v) Maintenance of equity to asset ratio of not less than 20% based on latest audited financial statement of a foreign subsidiary, prepared in accordance with the local Generally Accepted Accounting Principles in that country.

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

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

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

The secured term loans are subject to interest ranging from 2.81% to 5.71% (2010: 2.54% to 12.68%) per annum.

The term loans facility covenants include the following:

(i) The Group's debt to equity ratio shall not be more than 1.75 (2010: 1.75) times at all times.

(ii) The annual finance service cover ratio of the Group shall not be less than 1.50 (2010: 1.50) based on the latest audited financial statement on consolidated basis.

15. Loans and borrowings (continued)

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

The unsecured term loans were subject to interest ranging from 1.17% to 7.40% (2010: 1.09% to 6.46%) per annum.

15.4 CP/MTN programme has the following significant covenants:

(i) The Group's debt to equity ratio (DE ratio) shall not be more than 1.75 (2010: 1.75) times at all times.

(ii) The annual finance service cover ratio (FSCR ratio) of the Group shall not be less than 1.5 (2010: 1.5) based on the latest audited financial statement on consolidated basis. The Note holders have granted indulgence/waiver to the Group until 30 September 2012 to comply with the FSCR ratio.

(iii) Not to declare or pay any dividend or make any distributions whether income or capital in nature to its shareholders in the event that:-

(a) a breach of financial covenant would occur if such payment is made; or

(b) an event of default has occurred and is continuing or following such payment, an event of default would occur.

(iv) First legal charge over the Syariah compliant Designated Accounts and monies standing therein.

The CP/MTN are subject to profit rates ranging from 3.80% to 5.80% (2010: 3.70% to 5.80%) per annum.

The Group DE Ratio and annual FSCR Ratio are calculated for each financial year based on the latest audited financial statements of the Group on a consolidated basis. In the event the FSCR Ratio falls below 1.50 times, the Issuer shall remedy the breach within one (1) month period, failing which it will be considered an event of default.

15.5 Revolving credit of the Group granted by the licensed banks has the following significant covenants:

(i) The Group debt to equity ratio shall not be more than 1.75 (2010: 1.75) times at all times.

15. Loans and borrowings (continued)

(ii) The Group consolidated debt to EBITDA ratio shall not exceed 3.5 (2010: 3.5) times at all times. The relevant bank has agreed that this ratio is to be effective post 31 July 2012.

(iii) The debts service cover ratio of the Group shall not be less than 1.5 (2010: 1.5) computed on bi-annual basis (in ending June and Dec).

(iv) The finance service cover ratio (FSCR ratio) of the Group shall not be less than 1.5 (2010: Nil) computed semi annually based on half yearly financial statements and annual audited financial statement. The lending financial institution has granted indulgence to the Group until 30 June 2012 in conjunction with the facility due date.

The revolving credits were subject to interest ranging from 2.19% to 5.00% (2010: 1.98% to 4.18%) per annum.

15.6 Covenants Events

For the reporting period ended 31 December 2011, the Financial Service Cover Ratio and the Debts Service Cover Ratio fell short of the prescribed financial covenant ratios. In order to rectify the situation, subsequent to the financial year end, the Group and the Company have obtained indulgence/waiver from the affected lending institutions.

The Group has been engaging its financiers to regularise the shortfall in the prescribed financial covenant ratio including rebalancing the maturity profile of its loan portfolio. The Board of Directors plans to also improve the Group's liquidity through a corporate exercise via a proposed rights issuance of RM200million.

As at the issue date of this financial statements, there were no indications or incidences of "default notice" having been served or demand of accelerated payment has been made by the financiers to the Company or its subsidiaries as a result of the covenant short fall.

15.7 Extension of loan repayment term

Subsequent to the financial year end, the repayment terms of a floating rate term loan has been revised. The original repayment due in 2012 of RM50.2million (recorded as current liabilities as at 31 December 2011) has been rescheduled for repayment in 2013.

15. Loans and borrowings (continued)

15.8 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	2011 Minimum lease payments RM'000	2011 Interest RM'000	2011 Principal RM'000	2010 Minimum lease payments RM'000	2010 Interest RM'000	2010 Principal RM'000
Less than one year	6,397	(919)	5,478	7,593	(912)	6,681
Between one and five years	11,805	(1,420)	10,385	11,618	(1,788)	9,830
More than five years	3,493	(254)	3,239	3,481	(252)	3,229
	21,695	(2,593)	19,102	22,692	(2,952)	19,740

The finance lease liabilities are subject to interest ranging from 4.2% to 19.4% (2010: 4.1% to 23.1%) per annum.

16. Long term payables

	Group 2011 RM'000	Group 2010 RM'000
Social security institutions	14,673	14,988
Other long term payables	6,029	10,564
	20,702	25,552

Amounts payable to social security institutions of foreign subsidiaries are unsecured, interest free (2010: 4%) and not repayable within the next twelve months.

17. Deferred income

	Note	Group 2011 RM'000	Group 2010 RM'000
Construction work-in-progress	12.1	390,160	57,346

18. Trade and other payables, including derivatives

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Trade					
Trade payables		337,761	250,488	-	-
Non-trade					
Amount due to					
- subsidiaries	18.1	-	-	344,362	175
- associates	18.1	-	-	-	-
- jointly-controlled entities	18.1	9,366	215	-	-
- related parties	18.1	14,127	7,030	-	-
Other payables		56,692	29,047	101	170
Accrued expenses		78,864	93,154	3,563	3,308
Financial liabilities at fair value through profit or loss: Held for trading ("FFEC")		13,434	7,126	475	-
Derivatives designated as hedging instrument		7,920	2,514	-	-
		180,403	139,086	348,501	3,653
		518,164	389,574	348,501	3,653

18.1 Amount due to subsidiaries, associates, jointly-controlled entity and related parties

The amounts due to subsidiaries, associates, jointly-controlled entities and related parties are unsecured, interest free and repayable on demand.

19. Results from operating activities

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Results from operating activities is arrived at after charging:				
Auditors' remuneration				
Audit services				
Company's auditors				
- current year	577	522	150	185
- prior year	66	-	(35)	10
Affiliates of Company's auditors				
- current year	2,537	3,018	-	-
Other auditors	12	41	-	-
Other services				
- Company's auditors	53	83	-	83
- Local affiliates of Company's auditors	447	977	-	-
Depreciation of property, plant and equipment (Note 3.1)	10,649	7,788	-	-
Impairment loss of trade receivables	12,829	9,073	-	-
Amortisation of intangible assets	33,401	33,506	-	-
Net loss on foreign exchange	-	-	-	53
Rental of premises	13,596	12,703	-	-
Rental of equipment	3,226	2,369	-	-
Personnel expenses				
- Contribution to Employees' Provident Fund	10,113	8,760	-	-
- Wages, salaries and others	130,964	108,990	399	-
Provision for foreseeable losses	50,376	4,943	-	-
Impairment of goodwill	2,794	-	-	-
Provision for late delivery charges	13,104	-	-	-
and after crediting:				
Net gain on foreign exchange	7,304	3,308	1,232	-
Bad debts recovered	-	12,479	-	-
Gain on disposal of property, plant and equipment	70	26	-	-
Reversal of impairment loss of trade receivables	9,548	18,268	-	-
Dividend income, unquoted	-	-	-	25,000

20. Key management personnel compensation

The key management personnel compensation are as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Directors				
- Fees	853	687	853	687
- Remuneration	3,411	2,926	2,720	2,657
- Employee benefits (including estimated monetary value of benefit-in-kind)	50	55	50	55
	4,314	3,668	3,623	3,399
Subsidiaries directors				
- Short-term employee benefits	8,666	6,379	-	-
Other key management personnel				
- Short-term employee benefits	4,875	5,494	-	-
	17,855	15,541	3,623	3,399

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

21. Finance costs

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest expenses of financial liabilities that are not at fair value through profit or loss:				
- Term loans	25,702	26,749	19,493	19,723
- CP/MTN	9,771	13,297	-	-
- Revolving credit	8,708	6,316	-	-
- Bank overdraft	2,540	1,622	-	-
- Finance lease	2,287	979	-	-
	49,008	48,963	19,493	19,723
Bank and other charges	5,839	5,422	1	94
	54,847	54,385	19,494	19,817

21. Finance costs (continued)

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Interest expenses:				
- Recognised in profit or loss	52,190	54,193	19,494	19,817
- Attributed to contract cost	2,657	192	-	-
	54,847	54,385	19,494	19,817

22. Income tax expense

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Current tax expense				
Malaysian				
- current year	8,026	1,963	973	1,033
- (over)/under provision in prior year	(887)	56	(324)	(43)
Overseas				
- current year	36,327	41,647	-	-
- under provision in prior year	714	5,551	-	-
	44,180	49,217	649	990
Deferred tax expense				
- current year	(113,798)	(117,115)	(119)	333
- under/(over) provision in prior year	7,518	(8,065)	-	-
	(106,280)	(125,180)	(119)	333
Total tax expense	(62,100)	(75,963)	530	1,323
(Loss)/Profit for the year	(93,782)	122,473	3,128	24,375
Total tax expense	(62,100)	(75,963)	530	1,323
(Loss)/Profit excluding tax	(155,882)	46,510	3,658	25,698

22. Income tax expense (continued)

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Income tax using Malaysian tax rate of 25%	(38,971)	11,627	914	6,425
Effect of tax rates in foreign jurisdictions*	9,256	6,408	-	-
Non-deductible expenses	33,473	11,056	248	1,191
Tax exempt income	(8,333)	(6,572)	(308)	(6,250)
Tax incentive #	(88,950)	(88,950)	-	-
Effect of tax losses not recognised	22,498	7,000	-	-
Utilisation of previously unrecognised temporary differences	1,582	(14,074)	-	-
	(69,445)	(73,505)	854	1,366
(Over)/Under provision in prior year				
- Current tax expense	(173)	5,607	(324)	(43)
- Deferred tax expense	7,518	(8,065)	-	-
Total tax expense	(62,100)	(75,963)	530	1,323

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

\# This tax incentive was granted pursuant to the acquisition of a foreign subsidiary and is claimable over 4 years from Year of Assessment 2009, subject to fulfillment of certain conditions.

23. Earnings per ordinary share - Group

Basic (loss)/earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2011 was based on the loss attributable to owners of the Company of RM91,766,000 (2010: profit attributable to owners of the Company of RM118,201,000) and the weighted average number of ordinary shares outstanding during the year of 978,580,000 (2010: 983,410,000).

	Group	
	2011	**2010**
	'000	**'000**
Issued ordinary shares at beginning of the year	1,001,093	4,004,370
Effect of Share Consolidation	-	(2,950,228)
Effect of treasury shares held	(22,513)	(70,732)
Weighted average number of ordinary shares	978,580	983,410

	Group	
	2011	**2010**
	sen	**sen**
Basic (loss)/earnings per ordinary share	(9.38)	12.02

24. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share (net)	Total amount RM'000	Date of payment
2011			
Interim 2010 ordinary (tax exempt)	3.0	29,343	19 April 2011

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

25. Contingent liabilities - unsecured

	Company 2011 RM'000	2010 RM'000
Guarantees issued for		
borrowings of subsidiaries	1,509,671	1,882,871

On 13 March 2012, a foreign Tax Authorities has issued a preliminary tax notification amounting to RM8million (equivalent to EUR1.94million) against a foreign subsidiary. The management of the Group is compiling the necessary documentation to support and defend its tax position within the prescribed 60 days given to respond.

26. Commitments

	Group 2011 RM'000	2010 RM'000
Capital commitments:		
Property, plant and equipment		
Contracted but not provided for in the financial statements	1,836	71,541
Authorised but not contracted for	61,257	72,825
	63,093	144,366
Investment		
Authorised but not contracted for	10,149	14,827

27. 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 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.

Controlling related party relationships are as follows:

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

(ii) Its associates as disclosed in Note 6.

(iii) Its jointly-controlled entities as disclosed in Note 7.

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

(v) Inter Merger Sdn. Bhd., IMT O&G Solutions Sdn. Bhd. and IM Bina Sdn. Bhd., companies in which the directors, Lee Swee Eng and Gan Siew Liat have substantial financial interest.

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

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

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

27. Related parties (continued)

The significant related party transactions of the Group, other than key management personnel compensation are as follows:

Group		← Balance at 31 December 2011 →		
	Transactions amount for the year ended 31 December	Gross balance outstanding from/(to)	Net balance outstanding from/(to)	Allowance for doubtful receivables
2011	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Related parties				
Inter Merger Sdn. Bhd.		(482)	(482)	-
Rental of premises	*1,209*			
Administrative charges	*617*			
IM Bina Sdn. Bhd.		(2,933)	(2,933)	-
Contract billing payable	*8,010*			
IMT O&G Solutions Sdn. Bhd.		(51)	(51)	-
Purchase of materials	*51*			
Tofield Realty Development Corporation		(610)	(610)	-
General mechanical and engineering	*488*			
Nasser Hazza		(10,010)	(10,010)	-
General mechanical and engineering work	*1,317*			
Advances	*1,790*			
Civil works	*2,704*			
KPS Technnology & Engineering LLC		(2,937)	(2,937)	-
Administrative and other support services	*919*			
Associates				
KNM Projects (Thailand) Co. Ltd		4,140	4,140	-
Administrative and other support Services	*(297)*			

27. Related parties (continued)

Group 2011	Transactions amount for the year ended 31 December RM'000	← Balance at 31 December 2011 → Gross balance outstanding from/(to) RM'000	Net balance outstanding from/(to) RM'000	Allowance for doubtful receivables RM'000
Jointly controlled entities				
KNM Petrosab Engineering Sdn. Bhd.		8,400	8,400	-
Interest receivable	*(402)*			
Finance charges receivable	*(414)*			
KPN Gas Technology Sdn. Bhd.		(1,802)	(1,802)	-
Contract billing receivable	*(3,639)*			
Contract billing payable	*14,187*			
Verwater KNM Sdn. Bhd.		(330)	(330)	-
Contract billing payable services	*506*			
KNM Grinaker-LTA (Proprietary) Limited		604	604	-
Administrative and other support services	*(335)*			

27. Related parties (continued)

Group		← Balance at 31 December 2010		→
	Transactions amount for the year ended 31 December	Gross balance outstanding from/(to)	Net balance outstanding from/(to)	Allowance for doubtful receivables
2010	RM'000	RM'000	RM'000	RM'000
Related parties				
Inter Merger Sdn. Bhd.		(315)	(315)	-
Rental of premises	*1,209*			
Administrative charges	*480*			
IM Bina Sdn. Bhd.		(858)	(858)	-
Contract billing payable	*1,620*			
IMT O&G Solutions Sdn. Bhd.		-	-	-
Purchase of materials	*41*			
Tofield Realty Development Corporation		(495)	(495)	-
General mechanical and engineering	*412*			
Nasser Hazza		(5,362)	(5,362)	-
General construction, civil and related mechanical and engineering work	*2,524*			
KPS Technnology & Engineering LLC		(21)	(21)	-
Administrative and other support services	*2,280*			
KNM-DP Fabricators Sdn. Bhd.	-	495	-	(495)

27. Related parties (continued)

Group		← Balance at 31 December 2010		→
	Transactions amount for the year ended 31 December	**Gross balance outstanding from/(to)**	**Net balance outstanding from/(to)**	**Allowance for doubtful receivables**
2010	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Jointly controlled entities				
KPN Gas Technology Sdn. Bhd.		777	777	-
Contract Billing payable	*466*			
Administrative and other support services	*(38)*			
Verwater KNM Sdn. Bhd.		(206)	(206)	-
Contract billing payable	*277*			

	Company	
	2011	**2010**
	RM'000	**RM'000**
Subsidiaries		
Management fees received	(4,589)	(3,336)
Loan interest received	(22,813)	(22,288)
Dividend income	-	25,000

Balances with subsidiaries at the end of the reporting period are as disclosed in Note 5, Note 10, Note 12 and Note 18. There are no impairment loss and bad debts written off in respect of its amount due from subsidiaries.

All the amounts outstanding are unsecured, interest free, repayable on demand and expected to be settled with cash.

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), or
(c) Available-for-sale financial assets (AFS); and
(d) Other liabilities (OL).

	Carrying amount RM'000	L&R/ (OL) RM'000	FVTPL -HFT RM'000	AFS RM'000	Derivatives designated as hedging instrument RM'000
Financial assets					
Group					
2011					
Other investments, including derivatives	34,672	10,000	17,836	4,088	2,748
Trade and other receivables	847,460	847,460	-	-	-
Cash and cash equivalents	416,429	416,429	-	-	-
	1,298,561	1,273,889	17,836	4,088	2,748
2010					
Other investments, including derivatives	19,951	-	15,330	3,620	1,001
Trade and other receivables	678,199	678,199	-	-	-
Cash and cash equivalents	296,237	296,237	-	-	-
	994,387	974,436	15,330	3,620	1,001
Company					
2011					
Amount due from a subsidiary	351,330	351,330	-	-	-
Trade and other receivables	14,017	14,017	-	-	-
Cash and cash equivalents	622	622	-	-	-
	365,969	365,969	-	-	-
2010					
Amount due from a subsidiary	351,330	351,330	-	-	-
Trade and other receivables	182,744	182,744	-	-	-
Cash and cash equivalents	3,777	3,777	-	-	-
	537,851	537,851	-	-	-

28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

Financial liabilities	Carrying amount RM'000	L&R/ (OL) RM'000	FVTPL -HFT RM'000	Derivatives designated as hedging instrument RM'000
Group				
2011				
Loans and borrowings	(1,144,284)	(1,144,284)	-	-
Trade and other payables, including derivatives	(538,866)	(517,512)	(13,434)	(7,920)
	(1,683,150)	(1,661,796)	(13,434)	(7,920)
2010				
Loans and borrowings	(1,045,134)	(1,045,134)	-	-
Trade and other payables, including derivatives	(415,126)	(405,486)	(7,126)	(2,514)
	(1,460,260)	(1,450,620)	(7,126)	(2,514)
Company				
2011				
Loans and borrowings	(351,330)	(351,330)	-	-
Trade and other payables, including derivatives	(348,501)	(348,026)	(475)	-
	(699,831)	(699,356)	(475)	-
2010				
Loans and borrowings	(351,330)	(351,330)	-	-
Trade and other payables, including derivatives	(3,653)	(3,653)	-	-
	(354,983)	(354,983)	-	-

28. Financial instruments (continued)

28.2 Net gains and losses arising from financial instruments

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Net gains/(losses) arising on:				
Fair value through profit or loss:				
- Held for trading ("FFEC")	(770)	6,691	-	-
Loans and receivables	(63,392)	(17,320)	22,897	23,247
Financial liabilities measured at amortised cost	(41,067)	(51,877)	(19,493)	(19,723)
	(105,229)	(62,506)	3,404	3,524

28.3 Financial risk management objectives and policies

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

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

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

28.4 Credit risk

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

28. Financial instruments (continued)

28.4 Credit risk (continued)

The Group's objective on credit risk management is to avoid significant exposure to any individual counter party and to minimise concentration of credit risk. The Group achieves this through its operating units practices on credit and credit assessment, and performs central monitoring such as on credit risk concentration, credit evaluation, and credit impairment; whilst, the business units are responsible for its respective day-to-day credit risk management.

Policies and Processes

Policies and processes in managing credit risk varies with the classes of counter-parties as outlined below:

Contract Customers

Process & Specialised Equipment & Turnkey Contracts

Most orders are treated as onerous construction contracts, where billings are based on the progress milestones which typically are split into four or more stages of a project's life cycle. Large order such as EPC, 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. 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.

Financial Institutions

The Group places its funds in Banks in over 17 countries in which it has business presence. The Group also enters into FOREX forward 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 ISDA agreements are incepted where necessary.

Financial Guarantees and Advances for Subsidiaries

The Company through 2 (two) fully owned subsidiaries serves as central treasury to certain subsidiaries without external credit facilities by extending them loan and advances. For those subsidiaries with their own credit facilities, the Company is often required to provide corporate guarantee to the said banks extending such credit facilities. On the former, the Company enters into formal agreement on pricing and repayment schedule, and continuously monitors the subsidiaries' performances, cash-flows and repayment. On the latter, the Company continuously monitors the subsidiaries' performance and ability to service their credit obligations.

28. Financial instruments (continued)

28.4 Credit risk (continued)

28.4 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.

	Group Maximum exposure		Company Maximum exposure	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Financial assets				
Trade receivable	334,700	254,689	-	-
Amount due from contract customers	450,390	395,151	-	-
Amount due from a subsidiary company	-	-	360,671	531,074
Amount due from related parties, associates, and jointly-controlled entities	21,769	1,914	1,374	13
Other receivable and deposit	40,601	26,445	3,302	2,987
Other investment, including derivative assets	34,672	19,951	-	-
Deposit with licensed bank	65,061	79,135	-	-
Deposit with financial institutions	9,987	5,712	-	3,259
Cash at bank balances	341,381	211,390	622	518
	1,298,561	994,387	365,969	537,851

Receivables

Concentration of Credit Risk

The credit risk concentration of the Group is mainly in the trade receivables and amount due from contract debtors, and this is further analysed below by its geographic location of operations of the subsidiaries.

	2011		2010	
	RM'000	%	RM'000	%
Asia & Oceania	361,324	46	235,982	36
Europe	370,743	47	376,404	58
Americas	53,023	7	37,454	6
	785,090	100	649,840	100

28. Financial instruments (continued)

28.4 Credit risk (continued)

Receivables (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.

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

Group	Gross RM'000	Impairment RM'000	Net RM'000
2011			
Not past due	234,830	-	234,830
Past due 0 – 30 days	66,496	-	66,496
Past due 31- 60 days	6,834	-	6,834
Past due 61 – 120 days	9,566	-	9,566
Past due more than 120 days	66,569	(49,595)	16,974
	384,295	(49,595)	334,700
2010			
Not past due	108,866	-	108,866
Past due 0 – 30 days	92,346	-	92,346
Past due 31- 60 days	27,764	-	27,764
Past due 61 – 120 days	13,349	(1,042)	12,307
Past due more than 120 days	58,157	(44,751)	13,406
	300,482	(45,793)	254,689

The allowance account in respect of trade receivables is used to record impairment losses where the Group is doubtful of the collection. Doubtful amount will be written off against the allowance account if recovery channels are exhausted.

28. Financial instruments (continued)

28.4 Credit risk (continued)

Receivables (continued)

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

	Group	
	2011	**2010**
	RM'000	**RM'000**
At 1 January	45,793	66,543
Impairment loss recognised	12,829	9,073
Impairment loss reversed	(9,548)	(18,268)
Impairment loss written off	-	(4,513)
Effect on the movement of exchange rate	521	(7,042)
At 31 December	49,595	45,793

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 2 (two) of its fully 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 optimize cash conversion cycle
- Manage maturity profile of both financial and non-financial liabilities

28. Financial instruments (continued)

28.5 Liquidity risk (continued)

Liquidity Risk
The table below set out the contractual maturity profile of the Group 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.

Maturity analysis

Group 2011	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							
CP/MTN	190,000	3.80-5.80	198,554	150,513	48,041	-	-
Term loans – secured							
- Euro	39,283	2.81-5.50	52,498	5,712	5,672	19,891	21,223
- RM	351,330	5.31-5.71	389,948	117,504	113,276	159,168	-
Term loans – unsecured							
- RMB	6,044	7.40	6,492	4,328	2,164	-	-
- CAD	25,538	2.10-2.25	26,094	7,984	7,984	10,126	-
- Euro	12,173	1.17-3.10	12,790	11,153	409	1,228	-
- BRL	2,424	12.68-23.59	2,525	2,525	-	-	-
-USD	3,249	5.00	3,412	3,412	-	-	-
Revolving credit – unsecured							
- Euro	112,816	2.70-4.20	114,281	114,281	-	-	-
- RM	158,000	3.40-5.00	159,009	159,009	-	-	-
Bill payables – unsecured							
- USD	164,712	0.83-1.85	166,056	166,056	-	-	-
- Euro	15,239	0.85-2.00	15,410	15,410	-	-	-
- RM	27,112	3.27-3.71	27,112	27,112	-	-	-
Hire purchase and lease creditors	19,102	4.22-19.42	21,695	6,397	4,365	7,441	3,492

28. Financial instruments (continued)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 2011	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 (continued)							
Bank overdraft							
- BRL	17,262	14.52-24.60	19,969	19,969	-	-	-
Trade and other payables, excluding derivatives	517,512		517,512	496,810	20,702	-	-
	1,661,796		1,733,357	1,308,175	202,613	197,854	24,715
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
Outflow	686		699,021	699,021	-	-	-
Inflow	-		(698,335)	(698,335)	-	-	-
Interest rate swap (gross settled):							
Outflow	475		25,086	25,086	-	-	-
Inflow	-		(24,611)	(24,611)	-	-	-
	1,662,957		1,734,518	1,309,336	202,613	197,854	24,715

28. Financial instruments (continued)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 2010	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							
CP/MTN	265,000	3.75 – 5.80	273,251	209,550	18,048	45,653	-
Term loans – secured							
- BRL	4,167	12.68	4,842	3,228	1,614	-	-
- Euro	45,794	2.54 – 5.55	57,818	8,224	5,641	16,583	27,370
- RM	351,330	5.26 –5.31	392,938	122,000	112,373	158,565	-
Term loans – unsecured							
- RMB	9,360	6.46	10,268	4,290	4,046	1,932	-
- CAD	33,093	1.35 – 2.15	33,804	33,804	-	-	-
- Euro	22,702	1.09 – 3.10	23,863	11,116	11,116	1,223	408
- USD	5,076	5.00	5,166	5,166	-	-	-
Revolving credit – unsecured							
- Euro	71,552	2.19	72,279	72,279	-	-	-
- RM	138,000	3.40 – 4.18	138,435	138,435	-	-	-
Bill payables – unsecured							
- USD	51,225	0.83 – 3.71	51,672	51,672	-	-	-
- RM	22,556	0.83 – 3.71	22,713	22,713	-	-	-
Hire purchase and lease creditors	19,741	9.48 – 23.14	22,692	7,369	3,628	6,599	5,096

28. Financial instruments (continued)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 2010	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 (continued)							
Bank overdraft							
- USD	245	–	245	245	-	-	-
- BRL	5,293	13.89 – 26.82	5,293	5,293	-	-	-
Trade and other payables, excluding derivatives	405,486		405,486	379,934	25,552	-	-
	1,450,620		1,520,765	1,075,318	182,018	230,555	32,874
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
Outflow	-		527,570	527,570	-	-	-
Inflow	(6,689)		(534,259)	(534,259)	-	-	-
	1,443,931		1,514,076	1,068,629	182,018	230,555	32,874

28. Financial instruments (continued)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Company 2011	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							
- RM	351,330	5.31-5.71	389,948	117,504	113,276	159,168	-
Trade and other payables, excluding derivatives	348,026		348,026	348,026	-	-	-
Derivative financial liabilities							
Interest rate swap (gross settled):							
Outflow	475		25,086	25,086	-	-	-
Inflow	-		(24,611)	(24,611)	-	-	-
	699,831		738,449	466,005	113,276	159,168	-
2010							
Non-derivative financial liabilities							
Term loans – secured							
- RM	351,330	5.26 – 5.31	392,938	122,000	112,373	158,565	-
Trade and other payables, excluding derivatives	3,653		3,653	3,653	-	-	-
	354,983		396,591	125,653	112,273	158,565	-

28. Financial instruments (continued)

28.6 Foreign currency risk

The Group operates in 17 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 and Euro and MYR. MYR exposure is attributed to certain of the Company's subsidiaries located in Malaysia but adopting their functional currency in USD. The Group's foreign currency risk management objective is to minimise transactional FOREX 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 functional currency of Group entities. These highly probable future cash flows in foreign curreney 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 that transactional FX risk be fully hedged.

ii) Net investment in Foreign Operations.

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

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

28. Financial instruments (continued)

28.6 Foreign currency risk (continued)

The table below sets out the Group's significant financial assets' and liabilities' FX exposure based on the notional or contractual amount for USD, Euro and MYR.

	Denominated in		
Group	***USD***	***Euro***	***RM***
2011	**RM'000**	**RM'000**	**RM'000**
Trade receivables	21,887	23,409	2,725
Cash at bank balances	11,608	13,987	10,182
Trade payables	(3,399)	(1,459)	(27,759)
Other payables and accruals	(535)	-	(378)
Bill Payables	(46,767)	(14,802)	(26,459)
Forward exchange contracts	6,317	(15,880)	(764)
Net exposure in the statement of financial position	(10,889)	5,255	(42,453)
2010			
Trade receivables	12,779	6,170	15,289
Deposit with licensed bank	12,649	-	-
Cash at bank balances	4,945	12,259	2,061
Trade payables	(4,101)	(7,692)	(6,423)
Other payables and accruals	(856)	(1,122)	(4,134)
Bill Payables	(15,674)	(2,838)	(1,391)
Forward exchange contracts	(6,295)	64	-
Net exposure in the statement of financial position	3,447	6,841	5,402

Currency risk sensitivity analysis

Foreign currency risk mainly arises from Group entities which have US Dollar and Euro functional currency. The exposure to currency risk of Group entities which do not have a US Dollar and Euro functional currency is not material and hence, sensitivity analysis is not presented.

A 5 percent strengthening of Malaysian Ringgit against the US Dollar and Euro at the end of the reporting period would have increased equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

28. Financial instruments (continued)

28.6 Foreign currency risk (continued)

Currency risk sensitivity analysis (continued)

	Equity		Profit or loss	
	2011	2010	2011	2010
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**
USD	22,353	(9,262)	197	342
EURO	53,746	57,041	(408)	172
RM	-	-	(1,592)	270

A 5 percent weakening of Malaysian Ringgit against the US Dollar and Euro at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

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.

28. Financial instruments (continued)

28.7 Interest rate risk (continued)

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fixed rate instruments				
Financial assets	75,048	84,847	-	3,259
Financial liabilities	(337,552)	(260,561)	-	-
	(262,504)	(175,714)	-	3,259
Floating rate instruments				
Financial assets	-	-	351,330	351,330
Financial liabilities	(806,732)	(784,573)	(351,330)	(351,330)
	(806,732)	(784,573)	-	-

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) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

28. Financial instruments (continued)

28.7 Interest rate risk (continued)

Interest rate risk sensitivity analysis (continued)

(b) Cash flow sensitivity analysis for variable rate instruments (continued)

	Profit or loss	
	25 bp increase	25 bp decrease
Group	**RM'000**	**RM'000**
2011		
Floating rate instruments	1,513	(1,513)
Interest rate swap	343	(343)
Cash Flow sensitivity (net)	1,856	(1,856)
2010		
Floating rate instruments	1,990	(1,990)

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	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000	1 – 2 years RM'000
2011				
Proceeds from accounts receivables	105,498	112,129	104,873	7,256
2010				
Proceeds from accounts receivables	164,907	170,453	132,445	38,008
Payments to accounts payables	(1,913)	(2,196)	(2,196)	-

During the year, net loss of RM5,039,942 (2010: RM1,479,658) was recognised in the other comprehensive income. An ineffective net gain of RM718,996 (2010: RM5,743,740) was recognised in profit or loss during the year.

28. Financial instruments (continued)

28.9 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and short-term borrowings approximate their fair value due to the relatively short term nature of these financial instruments.

The carrying amounts of the floating rate term loans and amount due from subsidiary 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 Management.

The carrying amount and fair value of financial assets and liabilities, other than mentioned above are shown as follow:-

	2011		2010	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Group				
Fixed rate term loan				
- unsecured	5,166	5,170	11,502	11,625
Interest rate swaps				
- Liabilities	(475)	(475)	-	-
Forward exchange contracts:				
- Assets	20,584	20,584	16,331	16,331
- Liabilities	(20,879)	(20,879)	(9,640)	(9,640)
Finance lease liabilities-Fixed rate	(8,061)	(8,083)	(8,397)	(8,397)
Company				
Interest rate swaps				
- Liabilities	(475)	(475)	-	-

The following summarises the method used in determining the fair value of financial instruments reflected in the above tables.

Derivatives

The fair value of forward exchange contracts and interest rate swaps is assessed using the quoted market price obtained from Reuters/license financial institutions.

28. Financial instruments (continued)

28.9 Fair value of financial instruments (continued)

Non-derivative financial liabilities

Fair value which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Interest rates used to determine fair value

	2011	2010
Fixed rate term loans	3.10% – 5.00%	3.10% – 12.68%
Finance lease liabilities-Fixed rate	4.90% – 19.42%	4.90% – 23.14%

28.10 Fair value hierarchy

Comparative figures have not been presented for 31 December 2010 by virtue of paragraph 44G of FRS 7.

Table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2011				
Financial assets				
Available-for-sale	-	100	-	100
Forward exchange contracts	-	20,584	-	20,584
	-	20,684	-	20,684
Financial liabilities				
Forward exchange contracts	-	(20,879)	-	(20,879)
Interest rate swap	-	(475)	-	(475)
	-	(21,354)	-	(21,354)

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 limit of existing debt-equity ratio (DER) covenant.

As at 31 December 2011, the Group recorded a DER at 0.71 (2010: 0.60) as compared to the financial covenants of not exceeding 1.75 times.

30. Operating segment

The Group's resources allocation is assessed on a quarterly basis or as needed basis in accordance to the business performance and requirements of the respective geographical's operating unit as reviewed and determined by the Group's Chief Operating Decision Maker (CODM) whom is also the Chief Executive Officer of the Group. Hence, segment information is presented by geographical locations that the Group operates in. The format of the geographical segments is based on the Group's operation management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Reporting on segmental profit, assets and liabilities include items directly attributable to geographical segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The segments are classified into geographical presence as follows:

Geographical segment	Countries
Asia & Oceania	Malaysia, China, Hong Kong, India, Singapore, Brunei Darussalam, Indonesia, South Africa and Australia
Europe	British Virgin Islands, United Arab Emirates, Netherlands, Saudi Arabia, Italy, United Kingdom and Germany
America	Brazil, United States of America and Canada

30. Operating segment (continued)

Geographical segments

	Asia and Oceania		Europe		America		Consolidated	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Revenue	539,683	392,930	1,357,592	1,065,507	66,503	100,666	1,963,778	1,559,103
Cost of sales	(546,520)	(345,641)	(1,121,877)	(831,645)	(108,215)	(88,459)	(1,776,612)	(1,265,745)
Gross profit	(6,837)	47,289	235,715	233,862	(41,712)	12,207	187,166	293,358
Administration expenses and others	(84,805)	(50,964)	(177,178)	(136,429)	(32,027)	(8,781)	(294,010)	(196,174)
Operating (loss)/profit	(91,642)	(3,675)	58,537	97,433	(73,739)	3,426	(106,844)	97,184
Add: Depreciation and amortisation	21,564	22,364	64,147	60,921	8,519	9,386	94,230	92,671
Segment (loss)/profit	(70,078)	18,689	122,684	158,354	(65,220)	12,812	(12,614)	189,855
Share of profit/(loss) in associates and jointly-controlled entities, net of tax							(480)	237
Less:Depreciation and amortisation							(94,230)	(92,671)
							(107,324)	97,421
Financing costs							(52,190)	(54,193)
Interest income							3,632	3,282
(Loss)/Profit before tax							(155,882)	46,510

30. Operating segment (continued)

Geographical segments

	Asia and Oceania		Europe		America		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	1,230,268	916,474	2,514,898	2,379,905	186,703	227,773	3,931,869	3,524,152
Segment liabilities	1,476,597	1,044,880	706,768	611,211	136,428	137,293	2,319,793	1,793,384
Capital expenditure	28,780	17,984	28,617	50,720	4,727	1,559	62,124	70,263
Depreciation charged to income statements	7,993	4,509	2,473	3,042	183	237	10,649	7,788
Non-cash expenses/(income) other than depreciation	42,662	12,100	45,388	43,000	11,350	-	99,400	55,100

31. Subsidiaries

The principal activities of the subsidiaries, their places of incorporation and the interests of KNM Group Berhad are as follows:

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
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, licence and trademark services to international related companies and related international investments.	Malaysia	100%	100%
KNM Capital Sdn. Bhd.	Provision of funding and treasury services and all related functions.	Malaysia	100%	100%
KNM Management Services Sdn. Bhd.	Provision of qualifying services under the overseas head quarters (OHQ) concept which includes management, treasury, financial advisory, technical support, marketing, business development and procurement and all related functions.	Malaysia	100%	100%
KNM Renewable Energy Sdn. Bhd.@	Provision of project management, project business development and technical services.	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 Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
KNM Services (Singapore) Pte. Ltd. ^	Dormant.	Singapore	100%	100%
KNM China Pte Limited ^	Investment holding.	Hong Kong	100%	100%
Litwin Asia Pacific Sdn. Bhd.	Investment holding.	Malaysia	51%	51%
KNM Eurasia Sdn. Bhd.	Investment holding.	Malaysia	100%	100%
Subsidiaries of KNM Eurasia Sdn Bhd				
KNM Process Systems (Kazakhstan) Sdn. Bhd.	Dormant.	Malaysia	100%	100%
KNM Process Systems (Uzbekistan) Sdn. Bhd.	Dormant.	Malaysia	100%	100%
KNM Process Systems (Turkmenistan) Sdn. Bhd.	Dormant.	Malaysia	100%	100%
Subsidiaries of KNM Process Systems Sdn. Bhd.				
KNM OGPET (East Coast) 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%
Duraton Engineering Sdn. Bhd.	Provision of project manpower, engineering, non-destructive testing and technical consultancy services.	Malaysia	100%	100%

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
Perwira Awan Sdn. Bhd.	Property investment.	Malaysia	100%	100%
KNM Technical Services Sdn. Bhd.	Provision of technical services and other associated services related to the oil, gas and petrochemical industries.	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%
KNM Europa BV *	Investment holding.	Netherlands	100%	100%
KNM Pty. Ltd. *@	Design, manufacture, sale and service of heat exchange systems.	Australia	100%	100%
Borsig Boiler Systems Sdn. Bhd.	Dormant.	Malaysia	100%	100%
Deutsche KNM GmbH *	Investment holding.	Germany	100%	100%
KNM Sistemas de Processamento do Brasil Ltda *@	Investment holding.	Brazil	100%	100%
KNM OGPET (Sabah) Sdn. Bhd.@	Dormant.	Malaysia	80%	-

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
KNM DP-Fabricators Sdn. Bhd.^	Dormant.	Malaysia	86%	28%
Subsidiaries of KNM DP-Fabricators Sdn. Bhd.				
KNM-DP Harta Bina Sdn. Bhd.^	Dormant.	Malaysia	93%	65%
Subsidiaries of KNM China Pte Limited				
BORSIG Compression (China) Pte Limited ^	Dormant.	Hong Kong	100%	100%
BORSIG Valves (China) Pte Limited ^	Dormant.	Hong Kong	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 ^	Investment holding.	United Kingdom	100%	-

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
Subsidiaries of KNM Corporation				
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%
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%
KPS Inc ^	Investment holding.	Canada	100%	100%
Subsidiaries of KPS Inc				
KPS Technology & Engineering LLC ^	Provision of sulphur removal and recovery related services to clients in the oil, gas and energy/power industries in relation to sulphur removal and recovery technology.	United States of America	60%	65%

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
Subsidiary of KNM Pty Ltd				
W E Smith Engineering Pty Ltd *@	Thermal and mechanical design, drafting, manufacture of shell and tube heat exchangers, vessels, columns and feed water heaters.	Australia	100%	100%
HEA Australia Pty Ltd *@	Manufacture of air-cooled, shell and tube, and plate heat exchangers, vessels and columns.	Australia	100%	100%
PT Heat Exchangers Indonesia *@	Manufacture of air-cooled, shells, tube plates, frame heat exchangers, vessels and columns.	Indonesia	100%	100%
Subsidiaries of KNM Exotic Equipment Sdn. Bhd.				
BORSIG Industrial Services Sdn. Bhd.	Dormant.	Malaysia	100%	100%
KMK Power Sdn. Bhd.	Dormant.	Malaysia	100%	100%
Subsidiaries of Deutsche KNM GmbH				
BORSIG Beteiligungs verwaltungsgesellschaft mbH *	Investment holding.	Germany	100%	100%

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
Subsidiaries of BORSIG Beteiligungsverwaltungsgesellschaft mbH				
BORSIG GmbH *	Advisory and administration services as well as acquisition of and holding shares in other companies on behalf and for 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%
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%

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
Subsidiaries of BORSIG GmbH (continued)				
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%
Subsidiaries of BORSIG Membrane Technology GmbH				
GMT Membrantechnik GmbH *	Development, processing and distribution of membranes, membrane modules and membrane components.	Germany	51%	51%
Subsidiaries of BORSIG ZM Compression GmbH				
Compart Compressor Technology GmbH*	Development, production and distribution of valves, compressor parts, monitoring systems for compressors, provision of maintenance and repair works of compressors and other assets.	Germany	100%	100%
Subsidiaries of KNM Sistemas de Processamento do Brasil Ltda				
KNM Industrial Ltda *@	Design, fabrication, assembly and erection of tanks, spheres, storage systems, structural systems, piping and ducting systems for oil, gas and industrial plants.	Brazil	100%	100%

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
Subsidiaries of KNM Sistemas de Processamento do Brasil Ltda (continued)				
KNM Servicos Ltda *@	Provision of construction, management services, mechanical assembly and erection works, electrical, instrumentation works and maintenance services for oil, gas and industrial plants.	Brazil	100%	100%
KNM Equipamentos SA *@	Design, manufacture and commissioning of process equipment, boilers, transport, and other industrial equipment for oil, gas and industrial plants.	Brazil	100%	100%
Subsidiaries of KNM International Sdn. Bhd.				
KNM Overseas (China) Sdn. Bhd.@	Investment holding.	Malaysia	100%	100%
KNM Global Ltd.	Provision of management, procurement, business development, technical advisory and marketing services.	British Virgin Islands	100%	100%

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	2010
Subsidiaries of KNM International Sdn. Bhd. (continued)				
KNM Oil & Gas (B) Sdn. Bhd. *	Dormant.	Brunei Darussalam	100%	100%
KNM Engineering Services Private Limited **	Design, engineering, technical and project management services in relation to process equipment, plant facilities and general facilities for the oil, gas, petrochemicals, minerals processing and general industries. The Company has not commenced operations.	India	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%
KNM Saudi Ltd. ^	Production of platforms, towers, columns, pressure pipe, large barrels, boilers, thermal transformers, large tanks and cooling fans.	Saudi Arabia	51%	51%

31. Subsidiaries (continued)

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest 2011	Effective Ownership Interest 2010
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 FBM Hudson Italiana SpA and KNM International Sdn. Bhd.				
FBM - KNM FZCO *@	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.	United Arab Emirates	100%	100%
Subsidiary of KNM Renewable Energy Sdn. Bhd.				
KNM-CIW Sdn. Bhd.	Dormant.	Malaysia	100%	100%

* 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, if required.

^ Consolidated using management accounts as at 31 December 2011.

32. Acquisition of subsidiary and non-controlling interests

On 30 December 2011, the Group acquired additional 58% interest in KNM-DP Fabricators Sdn. Bhd. and its subsidiary for a cash consideration of RM949,000, increasing its ownership from 28% to 86%.

The principal activities of the subsidiaries acquired are shown in Note 31 of the financial statements. If the acquisition had occurred on 1 January 2011, management estimate that consolidated revenue would have been remained at RM1,963,778,000 but the consolidated loss for the year would have been RM93,790,000.

The acquisition 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)	2	-	2
Trade and other receivables	17	-	17
Cash and cash equivalents	9	-	9
Tax recoverable	4	-	4
Payables and accruals	(3,148)	-	(3,148)
Net identifiable assets and liabilities	(3,116)	-	(3,116)
Non-controlling interest			1,271
Goodwill on acquisition (Note 4)			2,794
Consideration paid, satisfied in cash			949
Cash acquired			(9)
Net cash outflow			940

No acquisition was undertaken by the Group in 2010.

33. Significant events during the year

33.1 On 7 February 2011, KNM Europa BV, a wholly-owned subsidiary of the Company had incorporated and subscribed for 10,000 ordinary shares of GBP1.00 each in KNM Project Services Limited ("KPSL"), representing 100% equity interest in KPSL for a total cash consideration of GBP10,000 (approximately RM49,100 based on the exchange rate of GBP1 : RM4.91).

33.2 On 11 April 2011, KNM Process Systems Sdn Bhd had invested and subscribed for 800 ordinary shares of RM1.00 each in KNM Ogpet (Sabah) Sdn Bhd ("KNMOS"), representing 80% equity interest in KNMOS for a total cash consideration of RM800.

33.3 On 11 April 2011, Borsig Industrial Services Sdn Bhd had invested and subscribed for 40,000 ordinary shares of RM1.00 each in Dimensi Bumijaya Sdn Bhd ("DBSB"), representing 40% equity interest in DBSB for a total cash consideration of RM40,000.

33.4 Further to the Company's ("KNM") announcement on 14 December 2010, KNM had on 28 June 2011 entered into a Shareholders' Agreement ("SHA") which supersedes the Joint Venture Agreement ("JVA") with Petrosab Logistik Sdn Bhd ("PETROSAB") dated 13 December 2010; whereby:-

(a) The shareholding structure in the joint venture company, Petrosab Petroleum Sdn Bhd (formerly known as KNM Petrosab Sdn Bhd) ("PPSB"), originally on 51% (KNM) : 49% (PETROSAB) basis pursuant to the JVA has now been revised to 40% (KNM) : 60% (PETROSAB) pursuant to the SHA. KNM will subscribe for an additional 39,999 ordinary shares of RM1.00 each in PPSB for a total cash consideration of RM39,999 ("**Investment No. 1**"). This additional 39,999 ordinary shares together with the previous 1 ordinary share held represents 40% of enlarged issued and paid up share capital of PPSB; and

(b) KNM OGPET (Sabah) Sdn Bhd ("KNMOS") will subscribe for 1,500,000 ordinary shares of RM1.00 each in KNM Petrosab Engineering Sdn Bhd ("KNMPE") (representing 30% of the enlarged issued and paid up share capital of KNMPE) for RM1,500,000; whereas, PPSB will subscribe for 3,499,998 ordinary shares of RM1.00 each in KNMPE for RM3,499,998 which, together with the previous 2 ordinary shares held represents 70% of the enlarged issued and paid up share capital of KNMPE (jointly referred as "**Investment No. 2**").

The transaction is completed during the year.

33. Significant events during the year (continued)

33.5 On 25 July 2011, KNM and Zecon Berhad had entered into the following Heads of Agreements ("HOAs") with Gulf Asian Petroleum Sdn Bhd ("GAP") towards inter alia the following:-

(i) to undertake the Engineering, Procurement, Construction and Commissioning ("EPC") Contract for the 150,000/200,000 bpd Petroleum Refinery and 400,000/525,000 mtpa Polypropylene Unit for GAP ("the Refinery/Polypropylene Project") with a total Project Value of USD5.0 billion (equivalent to about RM15.0 billion based on the exchange rate of USD1.00 : RM3.00); and

(ii) to undertake the Engineering, Procurement, Construction and Commissioning ("EPC") Contract for the Petroleum Product Storage Terminal Facility comprising 4 Terminals with a total storage capacity of 2.328 million cubic meters, complete with supporting infrastructure and auxiliaries including the jetty ("the Storage Project") with a total Contract Value of RM2.0 billion.

Both the Refinery/Polypropylene Project and Storage Project are located at Teluk Ramunia, Johor.

As at to-date, the Parties to the HOAs have yet to achieve financial close for the Refinery/Polypropylene Project and the Storage Project and the completion of the HOA is subject to conditions as stipulated in announcement dated 25 July 2011 and 26 July 2011.

33.6 Pursuant to a Membership Interest Transfer Agreement dated 1 October 2011, KPS Inc., an effective wholly-owned subsidiary of the Company had duly re-transferred its 4.87% interest in KPS Technology & Engineering LLC to one of its current staff/member i.e. Mr Alan D. Mosher, for a nominal value of USD1.00 only. The transaction is completed during the year.

33.7 On 5 December 2011, KNM's wholly owned subsidiary, KNM Process Systems Sdn Bhd had entered into a Sale and Purchase Agreement to acquire a total of 306,571 ordinary shares of RM1.00 each in KNM-DP Fabricators Sdn Bhd for a total cash consideration of RM952,855. The transaction is completed during the year.

33.8 KNM Renewable Energy Sdn Bhd ("KNMRE"), a wholly-owned subsidiary of the Company had on 6 December 2011 entered into a Share Subscription Agreement ("SSA") with Green Energy and Technology Sdn Bhd ("GreenTech") and Octagon Consolidated Berhad ("Octagon") to subscribe for a total of 10 million 8% Redeemable Convertible Preference Shares of RM0.01 each ("RCPS") in GreenTech, a subsidiary of Octagon for a total cash consideration of RM10 million only ("Consideration") or RM1.00 per RCPS. The transaction is completed during the year.

33. Significant events during the year (continued)

33.9 The proposed issuance of Sukuk Programmes of up to RM1,500 million, comprising of Islamic Commercial Paper Programme of up to RM400 million ("ICP Programme") and Islamic Medium Term Note Programme of up to RM1,100 million ("IMTN Programmes) by KNM remains unissued as of to-date.

The ICP Programme shall have a tenure of up to 7 (seven) years and the IMTN Programme shall have a tenure of up to 15 (fifteen) years from the date of the first issuance under the Sukuk Programmes.

33.10 The Proposal by KNM Capital Sdn. Bhd. ("KNMC"), a wholly-owned subsidiary of the Company on the issuance of up to United States of America Dollar ("USD") 350 million (or its Euro Dollar or Malaysia Ringgit equivalent) Bonds, exchangeable into new KNM Shares ("exchangeable bonds") ("Proposed Exchangeable Bonds Issue") was granted further validity extension up to 30 May 2011 by Securities Commission on 13 December 2010. The Proposed Exchangeable Bonds Issue had lapsed and KNMC will not be undertaking the exercise.

34. Events subsequent to year end

34.1 KMK Power Sdn Bhd ("KMK"), a wholly owned subsidiary of the Company had on 25 January 2012 entered into an Exclusivity Agreement ("Agreement") with Poplar Holdings Limited ("PHL") for the grant of exclusivity by PHL to KMK to conclude the proposed purchase of the entire issued share capital of Poplar Investments Limited for GBP25 million (approximately RM120 million) ("Proposed Transaction").

The exclusivity period shall commence from 25 January 2012 until and including 25 April 2012 unless extended by mutual agreement of KMK and PHL in order to complete the Proposed Transaction ("Exclusivity Period"). In consideration of PHL granting the Exclusivity Period, KMK has paid the sum of GBP500,000 (approximately RM2.4 million) upon signing of the Agreement. The Exclusivity Fee shall form part of the purchase price in respect of the Proposed Transaction, if parties are able to come to terms in respect of the same.

Pursuant to the Exclusivity Agreement dated 25 January 2012, KMK had entered into an Agreement for Sale and Purchase of Shares with Poplar Holdings Limited ("PHL") on 8 February 2012 for the acquisition of one (1) ordinary share of GBP1.00 representing 100% equity interest in Poplar Investments Limited ("PIL") for a total cash consideration of GBP25 million only [which amount is adjustable pending determination of the Net Assets Value of PIL at Completion].

34.2 On 26 January 2012, KNM Project Services Limited ("KPSL"), a wholly-owned subsidiary of the Company had completed the transfer of 310 shares of GBP1.00 each (representing 31% equity interest) in Energy Park Investments Limited ("EPIL") for a total cash consideration of GBP310.00 (approximately RM1,488.00) from Peterborough Renewable Energy Limited ("PREL") (the "Investment"). KPSL had initially taken a 49% equity stake in EPIL (comprising 490 shares of GBP1.00 each) from PREL on 1 July 2011 for the total cash consideration of GBP490.00 (approximately RM2,352.00). Pursuant to the completion of this transfer, KPSL now owns 80% equity interest in EPIL. The total cost of investment for the 800 shares is GBP800 (approximately RM3,840).

34.3 On 14 March 2012, KNM Europa BV, a wholly-owned subsidiary of the Company had incorporated KNM Technical Services ("KNMTS"), representing 100% equity interest in KNMTS for a total investment sum of USD1,500.00 (approximately RM4,662.25).

34.4 On 28 April 2012, the Board of Directors approved for the Company to undertake a proposed fund raising exercise involving a Rights Issuance of RM200million.

35. Supplementary financial information on the breakdown of realised and unrealised profits

The breakdown of the retained profits of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total retained profits of KNM Group Bhd and its subsidiaries				
- Realised	323,759	577,871	12,984	39,446
- Unrealised	52,679	(89,639)	119	(127)
	376,438	488,232	13,103	39,319
Total share of retained profits from associate				
- Realised	(293)	245	-	-
- Unrealised	(110)	-	-	-
Total share of retained profits from jointly controlled entities				
- Realised	(1,126)	(579)	-	-
- Unrealised	573	66	-	-
	375,482	487,964	13,103	39,319
Less: Consolidation adjustments	434,237	442,864	-	-
Total retained profits as per statements of financial position	809,719	930,828	13,103	39,319

The determination of realised and unrealised profits is based on Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 7 to 120 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 35 on page 121 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

....

Dato' Ab. Halim bin Mohyiddin

....

Lee Swee Eng

Kuala Lumpur,

Date: 30 April 2012

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Choo Kah Yean**, 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 7 to 121 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 30 April 2012.

....
Choo Kah Yean

Before me:

COMMISSIONER FOR OATHS
W 378
K NERMALA
MALAYSIA

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Independent auditors' report to the members of KNM Group Berhad

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

Report on the Financial Statements

We have audited the financial statements of KNM Group Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 7 to 120.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011, and of their financial performance and cash flows for the year then ended.

Emphasis of matter

Without qualifying our opinion, we draw attention to the following:-

i) As disclosed in Note 1(b) to the financial statements, the Group incurred a net loss of RM93,782,000 for the year ended 31 December 2011 and, as of that date, the current liabilities of the Group and of the Company exceeded their current assets by RM198,333,000 and RM431,620,000 respectively;

ii) As disclosed in Note 15.6 to the financial statements, the Group and the Company fell short of the prescribed financial covenant ratios as required by certain lending institutions. The Group and the Company had obtained the requisite indulgence/waiver from the affected lending institutions subsequent to year end and are in the midst of engaging the lenders to enable it to meet the required ratios after the indulgence period. In addition, the Board of Directors plans to also improve the Group's near term liquidity through a corporate exercise via a proposed rights issuance of RM200million.

In view of the matter set out in the preceding paragraphs, the appropriateness of preparing the financial statements on the going concern basis is dependent on the Group and the Company to address the financial covenant ratios within the indulgence period, completing its proposed fund raising via the proposed rights issue, achieving future profitable operations and the continuing financial support of shareholders, bankers and creditors. Accordingly, the financial statements of the Group and the Company do not include any adjustments as to the recoverability of recorded asset amounts, additional amounts of liabilities and the classification of assets and liabilities from non-current to current should the going concern basis of preparation of financial statements be inappropriate.

KPMG

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in aceordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 31 to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of thc financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 35 on page 121 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

KPMG

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

KPMG
Firm Number: AF 0758
Chartered Accountants

Chan Kam Chiew
Approval Number: 2055/06/12(J)
Chartered Accountant

Petaling Jaya,

Date: 30 April 2012

CERTIFIED TRUE COPY

LAU BEE GEE (MAICSA 0817743)
COMPANY SECRETARY

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS
FOR THE PERIOD ENDED 30 JUNE 2012 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Year to date	
	Unaudited 3 months ended 30.6.2012 RM'000	Unaudited 3 months ended 30.6.2011 RM'000	Unaudited 30.6.2012 RM'000	Unaudited 30.6.2011 RM'000
Contract revenue	586,698	544,300	1,172,527	957,300
Operating profit	34,742	14,794	63,025	31,611
Financing costs	(13,130)	(14,402)	(26,022)	(25,912)
Interest income	142	1,123	1,114	1,883
Share of (loss)/profit of equity accounted investees, net of tax	(10)	293	(408)	493
Profit before tax	21,744	1,808	37,709	8,075
Tax expense	12,398	8,140	31,762	20,890
Net profit for the period	34,142	9,948	69,471	28,965
Other comprehensive (loss)/ income, net of tax				
Foreign currency translation differences	(12,744)	39,114	(11,738)	88,278
Net investment in subsidiaries	4,934	13,013	(25,016)	28,378
Impairment of property,plant and equipment through Revaluation Reserve	-	-	-	-
Cash Flow hedge	(4,102)	865	3,083	3,288
Share of other comprehensive income of equity accounted investee	198	-	283	-
Other comprehensive (loss)/ income for the period, net of tax	(11,714)	52,992	(33,388)	119,942
Total comprehensive income for the period	22,428	62,940	36,083	148,907
Attributable to:				
Equity holders of the parent	33,842	10,855	68,894	29,872
Minority interest	300	(907)	577	(907)
	34,142	9,948	69,471	28,965
Total comprehensive income attributable to:				
Equity holders of the parent	22,131	63,688	35,579	149,446
Minority interest	297	(748)	504	(539)
Total comprehensive income for the period	22,428	62,940	36,083	148,907
Earnings per share:				
- Basic (sen)	3.46	1.11	7.05	3.05

KNM GROUP BERHAD

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

2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 30.6.2012	Audited As at 31.12.2011
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets		567,351	594,641
Goodwill		779,873	798,507
Property, plant and equipment		731,966	744,824
Other investment, including derivative		14,092	14,088
Investments in associates		42	45
Investments in jointly-controlled entities		7,284	5,882
Deferred Tax Asset		327,894	279,922
		2,428,102	2,437,909
Current assets			
Inventories		75,560	72,120
Contracts work in progress		622,990	450,390
Trade and other receivables		518,504	555,021
Cash and cash equivalents		176,573	416,429
		1,393,627	1,493,960
TOTAL ASSETS		3,821,729	3,931,869
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		1,001,093	1,001,093
Treasury Shares		(53,380)	(53,371)
Reserves		692,912	657,333
		1,640,625	1,605,055
Non-controlling interests		7,526	7,021
Total Equity		1,648,151	1,612,076
Non-current liabilities			
Long term payable		21,417	20,702
Long service leave liability		1,783	2,366
Loans and borrowings	B9	263,478	368,390
Deferred taxation		236,613	236,042
		523,291	627,500
Current liabilities			
Payables and accruals		541,843	518,164
Deferred income		328,596	390,160
Loans and borrowings	B9	773,576	777,894
Current tax liabilities		6,272	6,075
		1,650,287	1,692,293
Total liabilities		2,173,578	2,319,793
TOTAL EQUITY AND LIABILITIES		3,821,729	3,931,869
Net assets per share attributable to equity holders of the parent (RM)		1.64	1.60

The notes set out on pages 5 to 17 form an integral part of and should be read in conjunction with this interim financial report

UNAUDITED CONSOLIDATED FINANCIAL STATEMENT OF OUR COMPANY FOR THE 6-MONTH FPE 30 JUNE 2012 INCLUDING THE EXPLANATORY NOTES THEREON *(Cont'd)*

KNM GROUP BERHAD
(Company No:521348-H)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2012

	Attributable to equity holders of the parent									
			Non-Distributable				Distributable Reserve			
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000	Hedging Reserve RM'000	AFS Reserve RM'000	Revaluation and Other Reserve RM'000	Retained Profit RM'000	Total RM'000	Minority Interest RM'000	Total equity RM'000
As at 1 January 2011	1,001,093	(44,588)	319,426	(1,513)	30	(486,835)	930,828	1,718,441	12,328	1,730,769
Total comprehensive income for the period	-	-	-	3,288	-	116,286	28,872	149,446	(539)	148,907
Transaction with owners in their capacity as owner										
Increase in share capital in subsidiaries	-	-	-	-	-	-	-	-	-	-
Issue of shares pursuant to: - ESOS	-	-	-	-	-	-	-	-	-	-
Share Buy Back	-	(8,426)	-	-	-	-	-	(8,425)	-	(8,426)
Transfer to share premium for share options exercised	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(29,343)	(29,343)	-	(29,343)
As at 30 JUNE 2011 (Unaudited)	1,001,093	(53,014)	319,426	1,775	30	(370,549)	931,357	1,830,118	11,789	1,841,907
As at 1 January 2012	1,001,093	(53,371)	319,426	(5,172)	30	(466,670)	809,719	1,605,055	7,021	1,612,076
Total comprehensive (loss)/ income for the period	-	-	-	3,083	-	(36,398)	68,894	35,579	504	36,083
Transaction with owners in their capacity as owner										
Acquisition of equity interest in subsidiary									1	1
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	-
Share Buy Back	-	(9)	-	-	-	-	-	(9)	-	(9)
Dividend	-	-	-	-	-	-	-	-	-	-
As at 30 JUNE 2012 (Unaudited)	1,001,093	(53,380)	319,426	(2,089)	30	(503,068)	876,613	1,640,825	7,526	1,648,151

The notes set out on pages 5 to 17 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD
(Company No. 521348-H)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2012

(Unaudited)

	30.6.2012 RM '000	30.6.2011 RM '000
Cash flows from operating activities		
Profit before tax	37,709	8,075
Adjustments for:		
Amortisation of intangible assets	16,434	16,643
Depreciation	3,264	3,631
Interest expense	24,990	24,355
Interest income	(1,114)	(1,883)
Gain on foreign exchange-unrealised	(3,532)	(5,258)
Loss/(Gain) on disposal of property, plant and equipment	22	(26)
Share of (profit)/ loss of in associates and jointly-controlled entities	408	(493)
Change in fair value of forward contract	1,871 *	8,360
Provision for foreseeable losses	(28,472)	(2,075)
Goodwill written off	-	-
Operating profit before working capital changes	51,580	51,329
(Increase)/Decrease in working capital:		
Inventories	(3,440)	(1,253)
Receivables, deposits and prepayments	(67,082)	(113,041)
Payables and accruals and long service leave liability	(33,043)	345,317
Cash used in operations		
Income taxes paid	(22,475)	3,073
Interest paid	(1,465)	(86)
Interest received	1,114	1,883
Net cash used / generated from operating activities	(74,811)	287,222
Cash flows from investing activities		
Purchase of property,plant and equipment	(30,158)	(33,217)
Acquisition of minority interest	1	-
Acquisition of investment in Joint-controlled entity	(1,680)	-
Acquisition of other intangible assets	(3,892)	(186)
Proceeds from disposal of property,plant and equipment	1,447	330
Net cash used in investing activities	(34,282)	(33,073)
Cash flows from financing activities		
Proceeds from issuance of shares	-	-
Share buy back	(9)	(8,426)
Net (repayment)/proceeds from bill payable	(57,827)	30,954
(Repayment)/ Proceeds of hire purchase liabilities	(2,463)	3,523
Net (repayment)/proceeds from term loan	(46,408)	6,856
Net proceeds/(repayment) to ICP/IMTN	-	(50,000)
Interest expenses	(23,525)	(24,270)
Dividend paid	-	(29,343)
Dividind paid to minority interest	-	-
Net cash used in financing activities	(130,232)	(70,706)
Net (decrease)/ increase in cash and cash equivalents	(239,325)	183,443
Cash and cash equivalents at beginning of period	399,167	286,532
Cash and cash equivalents at end of period	159,842	469,975
Cash & bank balances	144,996	290,100
Deposits with financial institutions	-	189
Deposits with licensed banks	31,577	179,686
	176,573	469,975
Bank overdraft	(16,731)	-
	159,842	469,975

The notes set out on pages 5 to 17 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD
(Company No: 521348-H)

Notes to the quarterly Interim Financial Report – 30 June 2012

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of preparation

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

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2011. These explanatory notes attached to the interim financial statements provide explanation of events and transactions that are significant for the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2011.

The Group has adopted the Malaysian Financial Reporting Standard (MFRS) framework and MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards for the first time in these condensed interim financial statements. The transition to MFRS framework does not have any material financial impact to the financial statements of the Group.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011.

The following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group:-

		Effective for annual periods beginning on or after
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosures of Interest in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits (as amended in June 2011)	1 January 2013
MFRS 127	Separate Financial Statements (as amended by IASB in May 2011)	1 January 2013
MFRS 128	Investment in Associates and Joint Ventures (as amended by IASB in May 2011)	1 January 2013
Amendments to MFRS 7	Disclosures- Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

KNM GROUP BERHAD
(Company No: 521348-H)

A3. Qualification of annual financial statements

There were no audit qualification on the annual financial statements of the Group for the year ended 31 December 2011.

A4. Seasonal and cyclical factors

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

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

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

A6. Material changes in estimates

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

A7. Issuances and repayment of debt and equity securities

A. There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period to date other than those stated below:

	RM'000
Opening Balance of ICP/IMTN outstanding as at 1 January 2012	190,000
ICP/IMTN Drawdown/(Repayment)	-
Balance of ICP/IMTN outstanding as at 30 June 2012	190,000

As at 30 June 2012, the amount outstanding for Islamic Commercial Papers ("ICP")/Islamic Medium Term Notes ("IMTN") is RM190.0 million out of the limit of RM190.0 million, mainly used for repayment of bank borrowings and working capital. Under the program, up to RM150 million is fully underwritten by Malayan Banking Berhad & AMInvestment Bank Berhad and has a tenure of 7-years from the date of issuance.

B. As at the date of this report, the Company has repurchased a total 23,251,275 of its issued shares capital from the open market. The average priee paid for the shares repurchased was RM2.30 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares and treated in accordance with the requirement of Section 67A of the Companies Act 1965.

KNM GROUP BERHAD
(Company No: 521348-H)

A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Geographical segments:

	Revenue 6 months ended 30.6.2012 RM'000	Gross Profit 6 months ended 30.6.2012 RM'000	EBITDA 6 months ended 30.6.2012 RM'000
Asia & Oceania	447,824	63,870	28,807
Europe	676,717	131,697	95,680
Americas	47,986	4,161	(14,597)
Total	1,172,527	199,728	109,890

	Revenue 6 months ended 30.6.2011 RM'000	Gross Profit 6 months ended 30.6.2011 RM'000	EBITDA 6 months ended 30.6.2011 RM'000
Asia & Oceania	396,975	47,182	27,584
Europe	520,709	96,732	58,267
Americas	39,616	3,960	(8,000)
Total	957,300	147,874	77,851

A10. Valuation of property, plant and equipment

Property, plant and equipment of the Group are stated at cost/valuation less accumulated depreciation and accumulated impairment losses where applicable.

There is no revaluation of property, plant and equipment during the period under review.

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

There was no material event subsequent to the end of the reporting period and up to the date of issuance of this report.

KNM GROUP BERHAD
(Company No: 521348-H)

A12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial period to date except as follows:-.

(1) On 26 January 2012, KNM Project Services Limited ("KPSL"), an effective wholly-owned subsidiary of the Company had completed the transfer of 310 shares of GBP1.00 each (representing 31% equity interest) in Energy Park Investments Limited ("EPIL") for a total cash consideration of GBP310.00 (approximately RM1,488.00) from Peterborough Renewable Energy Limited ("PREL") (the "Investment"). Pursuant to the completion of this transfer, EPIL has now become a new 80% subsidiary of KPSL. The total cost of investment is GBP800.00 (approximately RM3,840.00).

(2) On 14 March 2012, KNM Europa BV, a wholly-owned subsidiary of the Company had incorporated KNM Technical Services ("KNMTS"), representing 100% equity interest in KNMTS for a total investment sum of USD1,500.00 (approximately RM4,662.25).

A13. Changes in contingent liabilities

There were no material changes in contingent liabilities for the Group as at the date of this announcement.

A14. Capital commitments

	Approved and contracted for RM'000	Approved but not contracted for RM'000
Property, plant and equipment	53,715	48,008
Investment	108,018	10,047
	161,733	58,055

KNM GROUP BERHAD
(Company No: 521348-H)

A15. Related party transactions

Significant related party transactions for the financial period to date are as follows:

	RM '000
Inter Merger Sdn Bhd (a) - Office rental, related charges and administrative expense	1,050
I.M.Bina Sdn Bhd (b) -General construction and civil works	4,208
IMT O&G Solutions Sdn Bhd (c) -Supply of production materials and fixed assets	10
Tofield Realty Development Corporation (d) - General and civil contractor and provider of staff accommodation	251
Nassir Hazza (e) - General construction, civil and related mechanical and engineering work	-
KPS Technology & Engineering LLC(f) -Provision/Receipt of mechanical and engineering, general administrative and other support services -Provision/Receipt of qualifying services under the overseas head quarters (OHQ) status and other support services	101

(a) *a company in which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors*
(b) *a company in which Inter Merger Sdn Bhd is the holding company*
(c) *a company in which Inter Merger Sdn Bhd is the holding company*
(d) *a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors and shareholders*
(e) *Nassir Hazza is an entity controlled by Mohammed Nassir Hazza Al Fehaid Al Subaei, a director of KNM Saudi Limited Co*
(f) *a company in which Mr. Lee Swee Eng is a substantial shareholder*

KNM GROUP BERHAD
(Company No: 521348-H)

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

B1. Review of performance

The Group achieved revenue of RM1.17 billion, EBITDA (Earning Before Interest, Tax, Depreciation and Amortisation) of RM109.89 million and profit after tax and minority interest of RM68.89 million for the period ended 30 June 2012. Compared to the previous year, the higher revenue, EBITDA and profit after tax and minority interest in this year was due to higher job recognition on stronger order book and better contribution margin from projects.

Asia & Oceanic Segment
This segment saw improvement on contribution from higher margin projects' progress. Market competition on conventional low end process equipment in 2012 eased with higher order secured.

Europe Segment
Europe continue to operate with the strong order book from last year complimented with new orders secured in the current year. Profitability improved on higher project revenue recognition and better contribution margin.

Americas Segment
South America operations continue to weigh down on the Americas performance, extending losses on the back of slowdown of order book as compared to the previous year. However, North America continue to contribute positively on progress of Canadian oil sands projects.

B2. Variation of results against preceding quarter

The Group's revenue of RM586.70 million was higher by RM0.87 million as compared to first quarter's revenue of RM585.83 million. The Profit before taxation and minority interest of RM21.74 million is improved by RM5.78 million as compared to first quarter profit before taxation and minority interest of RM15.96 million. The improved results for quarter under review are mainly due to improved project contribution margin.

B3. Current year prospects

Our Asia & Oceanic segment has recorded slightly better order intake for the first 2 quarters which would help improve capacity utilization and contribute positively into the remaining quarters of the current financial year.

Existing strong order book will sustain the European segment to remain profitable for the remaining 2 quarters.

The business performance for Americas segment remain challenging.

The Board is of the opinion that the financial performance of the Group will remain positive.

KNM GROUP BERHAD
(Company No: 521348-H)

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 30.6.2012 RM'000	3 months Ended 30.6.2011 RM'000	6 months Ended 30.6.2012 RM'000	6 months Ended 30.6.2011 RM'000
Income Tax expense :-				
Current	8,791	3,559	10,718	8,572
Prior period	(6)	(528)	11	(530)
Deferred tax	(21,183)	(11,171)	(42,491)	(28,932)
	(12,398)	(8,140)	(31,762)	(20,890)

The Group's effective tax rate is lower than the statutory tax rate mainly due to the availability of certain tax incentives.

B6. Unquoted investments and properties

The Group has not made or disposed any investments in any unquoted investments and properties for the current quarter and financial period to date.

B7. Quoted and marketable investments

There were no investments or disposals in quoted and marketable securities during the current quarter and financial period to date.

KNM GROUP BERHAD
(Company No: 521348-H)

B8. Status of corporate proposals announced but not completed

(1) On 22 October 2010, the Company announced that Securities Commission ("SC") vide their letter dated 21 October 2010 has approved the Company's proposed issue of Sukuk Programmes of up to RM1,500 million comprising of Islamic Commercial Paper Programme of up to RM400 million ("ICP Programme") and Islamic Medium Term Note Programme of up to RM1,100 million ("IMTN Programmes).

Subsequently, on 1 August 2012, the Company announced that it has obtained approval from SC vide their letter dated 27 July 2012 to have its long-term rating for the IMTN Programme revised from AA-ID to A+ID; whilst its short term rating for the ICP Programme remains unchanged at MARC-1ID ("SC Revision Approval"). Except for the above long-term rating revision, all other terms remain unchanged.

The ICP Programme shall have a tenure of up to 7 (seven) years and the IMTN Programme shall have a tenure of up to 15 (fifteen) years from the date of the first issuance under the Sukuk Programmes. No commercial papers or medium term notes have been issued as at to-date.

(2) On 25 July 2011, KNM and Zecon Berhad ("Zecon") had entered into the following Heads of Agreements ("HOAs") with Gulf Asian Petroleum Sdn Bhd ("GAP") towards inter alia the following:-

a. to undertake the Engineering, Procurement, Construction and Commissioning ("EPC") Contract for the 150,000/200,000 bpd Petroleum Refinery and 400,000/525,000 mtpa Polypropylene Unit for GAP ("the Refinery/Polypropylene Project") with a total Project Value of USD5.0 billion (equivalent to about RM15.0 billion based on the exchange rate of USD1.00 : RM3.00); and

b. to undertake the Engineering, Procurement, Construction and Commissioning ("EPC") Contract for the Petroleum Product Storage Terminal Facility comprising 4 Terminals with a total storage capacity of 2.328 million cubic meters, complete with supporting infrastructure and auxiliaries including the jetty ("the Storage Project") with a total Contract Value of RM2.0 billion.

Both the Refinery/ Polypropylene Project and Storage Project are located at Teluk Ramunia, Johor.

As at to-date, the Parties to the Heads of Agreements have yet to achieve financial close for the Refinery/Polypropylene Project and the Storage Project and the completion of the HOA is subject to conditions as stipulated in the company's announcements dated 25 July and 26 July 2011.

(3) KNM's wholly-owned subsidiary, KMK Power Sdn Bhd ("KMK") had on 25 January 2012 entered into an Exclusivity Agreement ("Agreement") with Poplar Holdings Limited for the grant of exclusivity by PHL to KMK to conclude the proposed purchase of the entire issued share capital of Poplar Investments Limited ("Sale Shares") for GBP25 million (approximately RM120 million) ("Proposed Acquisition").

The exclusivity period shall commence from 25 January 2012 until and including 25 April 2012 unless extended by mutual agreement of KMK and PHL in order to complete the Proposed Acquisition ("Exclusivity Period"). In consideration of PHL granting the Exclusivity Period, KMK has paid the sum of GBP500,000 (approximately RM2.4 million) upon signing of the Agreement. The Exclusivity Fee shall form part of the purchase price in respect of the Proposed Acquisition, if parties are able to come to terms in respect of the same.

Pursuant to the Exclusivity Agreement dated 25 January 2012, KNM Group Berhad's wholly owned subsidiary, KMK Power Sdn Bhd ("KMK"), had entered into an Agreement for Sale and Purchase of Shares ("SPA") with Poplar Holdings Limited ("PHL") on 8 February 2012 for the acquisition of one (1) ordinary share of GBP1.00 ("Sale Shares") representing 100% equity interest in Poplar Investments Limited ("PIL") for a total cash consideration of GBP25 million only [which amount is adjustable pending determination of the Net Assets Value of PIL at Completion].

On 14 August 2012, KMK has obtained a further extension to complete the Proposed Acquisition by 31 October 2012.

(4) Pursuant to the Company's announcements on 30 April 2012, 21 June 2012, 31 July 2012 and 1 August 2012, KNM is proposing to undertake the following:-

(a) a renounceable two-call rights issue of 488,920,659 new ordinary shares of RM1.00 each in KNM (**"KNM Shares"**) (**"Rights Shares"**) at an indicative issue price of RM1.00 for each Rights Share on the basis of one (1) Rights Share for every two (2) existing KNM Shares held as at an entitlement date to be determined later together with up to 488,920,659 free detachable warrants (**"Warrants"**) on the basis of one (1) Warrant for every one (1) Rights Share subscribed for (**"Proposed Rights Issue"**). The indicative First Call price of RM0.40 per Rights Share will be payable in full in cash upon application. The indicative Second Call of RM0.60 per Rights Share will be capitalized from the Company's share premium reserve.

(b) an increase in the authorised share capital of the Company from RM1,250,000,000 comprising of 1,250,000,000 KNM Shares to RM2,250,000,000 comprising of 2,250,000,000 KNM Shares (**"Proposed Increase In Authorised Share Capital"**); and

(c) amendments to the Memorandum and Articles of Association of the Company (**"Proposed Amendments"**).

The Proposed Rights Issue, Proposed Increase In Authorised Share Capital and Proposed Amendments are collectively referred to as the **"Proposals"**.

The Company has submitted the following applications for approvals:-

a. an application to Bank Negara Malaysia on 1 August 2012 to seek its approval for the issuance of the Warrants to non-residents; and
b. the listing application to Bursa Malaysia Securities Berhad ("Bursa Securities") on 31 July 2012 for the following:-
   (1) admission of 488,920,659 Warrants to the Official List of Bursa Securities; and
   (2) listing of and quotation for the following on the Main Market of Bursa Securities:-
      (i) 488,920,659 Rights Shares;
      (ii) 488,920,659 Warrants; and
      (iii) 488,920,659 new KNM Shares to be issued upon exercise of the Warrants.

KNM had since obtained BNM's approval per BNM's letter dated 10 August 2012 and Bursa Securities' approval vide Bursa Securities' letter dated 14 August 2012. However, the Proposals are still pending the approval from KNM's shareholders to be obtained at an Extraordinary General Meeting to be convened in due course.

KNM GROUP BERHAD
(Company No: 521348-H)

B9. Group borrowings and debt securities

The Group's borrowings as at the end of the reporting period were as follows:

	RM'000
Short term:	
Borrowings (secured)	104,617
Borrowings (unsecured)	37,012
ICP/IMTN	190,000
Bank Overdraft	16,731
Bill Payable	200,197
Hire Purchase	5,165
Revolving credit	219,854
	773,576
Long term :	
Borrowings (secured)	216,927
Borrowings (unsecured)	35,076
IMTN	-
Hire Purchase	11,475
	263,478
	1,037,054

The above are also inclusive of other borrowings in foreign currency of RMB27.00 million, EURO41.47million, CAD3.6 million, and BRL7.45 million.

The exchange rates used are 1 RMB = RM 0.499, 1 EURO = RM 4.0139, 1 CAD = RM 3.1186, and 1 BRL = RM 1.5778

B10. Financial Instruments

With the adoption of FRS 139, financial instruments are recognized on their respective contract dates.

There are no off-balance sheet financial instruments.

The outstanding forward foreign currency exchange contracts as at 30 June 2012 are as follows:-

Type of Derivative	Contract/Notional value RM'000	(Gain) /Loss on Fair value changes RM'000
Foreign Exchange Contracts		
-Less than 1 year	475,321	(98)
-1 year to 3 years	149,872	(789)
- More than 3 years	-	-
	625,193	(887)

KNM GROUP BERHAD
(Company No: 521348-H)

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

Forward foreign exchange contracts are entered into with licensed banks to hedge the Group's exposure to foreign exchange risk in respect of its export sales, import purchases and other obligations by establishing the basis rate at which a foreign currency asset or liability will be settled.

These contracts are executed with credit-worthy/ reputable financial institutions and as such, credit risk and liquidity risk in respect of non-performance by counterparties to these contracts is minimal.

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

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

B11. PROFIT FOR THE PERIOD

	3 Months ended 30.6.2012 RM'000	3 Months ended 30.6.2011 RM'000	6 Months ended 30.6.2012 RM'000	6Months ended 30.6.2011 RM'000
(a)				
Profit for the period is arrived at after charging and crediting:				
Allowance /(Reversal) for impairment loss on doubtful debt	3,541	136	(4,819)	1,060
Net (Gain)/Loss on foreign exchange	871	(14,607)	(3,918)	(24,525)
Net Loss/(Gain) on derivative	(2,492)	9,789	1,871	8,360
Provision /(Reversal) for foreseeable losses	(623)	(4,848)	(28,472)*	(2,075)
Impairment of asset	-	-	-	-
Amortisation of intangible Asset	8,360	8,493	16,434	16,643
Provision for/(Reversal) warranty	(252)	(972)	(250)	(1,074)
Interest income	142	1,123	1,114	1,883
Late delivery charges	(113)	-	(113)	-
(b)				
Interest Expenses	13,130	14,402	26,022	25,912
(c)				
Depreciation charge for the period:				
Income statement	1,627	1,708	3,264	3,631
Construction work in progress	13,699	12,965	27,167	25,965
	15,326	14,673	30,431	29,596

*This has been corrected to include a typographical error in Q1 2012 announcement.

KNM GROUP BERHAD
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B12. Realised and Unrealised Profit/Losses Disclosure

	As at 30 June 2012	As at 31 December 2011
	RM'000	RM'000
Total retained profit of KNM Group and its subsidiaries		
- Realised	323,168	323,759
- Unrealised	67,662	52,679
Total share of retained profit / (accumulated losses) from associated companies:		
- Realised	(3,303)	(293)
- Unrealised	(26)	(110)
Total share of retained profit/(accumulated losses) from jointly controlled entities:		
- Realised	(1,319)	(1,126)
- Unrealised	(661)	573
Less: Consolidation adjustments	493,092	434,237
Total Group retained profits as per consolidated accounts	878,613	809,719

B13. Material litigation

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

B14. Dividend payable

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

KNM GROUP BERHAD
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B15. Earnings per share

	Individual Quarter		**Cumulative Quarter**	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	33,842	10,855	68,894	29,872
Number of shares at the beginning of the period ('000)	1,001,093	1,001,093	1,001,093	1,001,093
Effect of share consolidation	-		-	
Effect of ESOS ('000)	-	-	-	-
Effect of Share Buy Back	(23,248)	(21,849)	(23,248)	(21,849)
Weighted average number of shares ('000)	977,845	979,244	977,845	979,244
Basic earnings per share (sen)	3.46	1.11	7.05	3.05

B16. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 16 August 2012.

KNM GROUP BERHAD (521348-H)
Corporate Office
15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia.
Tel: (603)-8946 3000 • Fax: (603)-8943 4781 • Email: knm@knm-group.com • Website: www.knm-group.com

Date: 11 October 2012

Registered office:-

15, Jalan Dagang SB4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan, Malaysia

To: The Shareholders of KNM Group Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of KNM Group Berhad ("**KNM**") ("**Board**"), I report, after making due enquiries in relation to the interval between 31 December 2011 (being the date to which the last audited financial statements of KNM and its subsidiaries ("**Group**") have been made up) to the date hereof, being a date not earlier than 14 days before the date of issue of this Abridged Prospectus:-

(i) the business of our Group has, in the opinion of the Board, been satisfactorily maintained;

(ii) in the opinion of the Board, no circumstances have arisen since the last audited financial statements of our Group which have adversely affected the trading or the value of the assets of our Group;

(iii) the current assets of our Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(iv) there are no other contingent liabilities which have arisen by reason of any guarantee or indemnity given by our Group;

(v) since the last audited financial statements of our Group, the Board is not aware of any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of our Group; and

(vi) save as disclosed in this Abridged Prospectus, there have been no material change in the published reserves or any unusual factor affecting the profits of our Group since the last audited financial statements of our Group.

Yours faithfully
For and on behalf of the Board of
KNM GROUP BERHAD

IR LEE SWEE ENG
Executive Chairman/ Chief Executive Officer

1. SHARE CAPITAL

(i) Save for the new KNM Shares to be issued or pursuant to the exercise of the Warrants, no securities of our Company will be issued and allotted on the basis of this AP later than 12 months after the date of this AP.

(ii) As at the LPD, save for the Rights Issue, no other person has been or is entitled to be granted an option to subscribe for any securities, shares or debentures in our Company or our subsidiaries.

2. ARTICLES OF ASSOCIATION

The provision in our Articles of Association in relation to the remuneration of our Directors is as follows:-

Article 110 – Remuneration of Directors

Subject to these Articles, the fee of our Directors shall time to time be determined by the Company in general meeting but:-

(1) Directors' fees payable to Directors not holding any executive office in the Company shall receive a fixed sum and shall not be payable by a commission on or percentage of profits or turnover;

(2) Salaries payable to Directors holing executive office may not include a commission on or a percentage of turnover;

(3) All fees payable to Directors shall be deemed to accrue from day to day;

(4) Fees payable to Directors shall not be increased except pursuant to the resolution passed by the Company in general meeting, where notice of the proposed increase has been given in the notice convening the meeting;

(5) Any fees paid to an alternate Director shall be agreed between him and his appointer and shall be deducted from his appointer's remuneration.

Article 112 – Special Remuneration of Directors

The Directors may grant special remuneration to any Director who (on request by the Directors) is willing:

(1) To render any special or extra services to the Company; or

(2) To go or reside outside his country of domicile or residence in connection with the conduct of any of the Company's affairs.

Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be paid in a lump sum or by way of salary, or by a percentage of profits, or by all or any of such methods but shall not include (where such special remuneration is paid by way of salary) a commission on or a percentage of turnover.

Article 137 (2) – Directors' Benefits

Subject to the Act, the Directors may:

(1) ... (non-applicable section)

(2) Pay, provide for or procure the grant of donations, gratuities, pensions, allowances, bonuses, loans, credit, benefits or emoluments to,

....(non-applicable section)

any Directors (whether or not he holds or has held any executive office or employment with the Company or any other persons referred to in Article 137(a) and (b)), officers and employees and former Directors, officers and employees of:

(a) the Company; or

(b) any body corporate which is or has been a Subsidiary of the Company,

and any member of his family (including, a spouse and former spouse, his child and parents) or any person who is or was a dependant on him.

Article 138 – Directors' Share Schemes

(1) No Director shall participate in a share scheme for employees unless shareholders in general meeting have approved of the specific allotment to be made to such Director.

(2) Subject to Article 138(1), the Directors may establish, maintain and give effect to any scheme approved by the Company in general meeting for the allotment of or the grant of options to subscribe for shares of the Company to any Directors (who hold any executive office or employment with the Company), officers or employees of:

(a) the Company; or

(b) any body corporate which is or has been a subsidiary of the Company,

as may exercise all the powers given to them by such scheme (including (without limitation) any power to alter or add to the provisions of such scheme) and these Articles shall be deemed to be modified as far as may be necessary to give effect to such scheme for the time being in force in respect of any share or shares for the time being in issue or under option subject to such scheme.

3. MATERIAL CONTRACTS

Save as disclosed below, as at the LPD, our Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) during the two (2) years preceding this AP:-

(i) On 10 November 2010, KNM had executed the following agreements with the following parties in relation to the issuance of up to RM1,500 million in nominal value of Islamic commercial papers/Islamic medium term notes:-

(a) Trust Deed between KNM and Equity Trust (Malaysia) Berhad (**"Equity Trust"**);

(b) Programme Agreement between KNM, RHB Investment Bank and Standard Chartered Saadiq Berhad (**"SCB"**);

(c) Depository and Paying Agency Agreement between KNM, Equity Trust, Bank Negara Malaysia and RHB Investment Bank;

(d) Declaration of Trust (Designated Accounts) between KNM and Equity Trust; and

(e) Deed of Definitions between KNM, Equity Trust, RHB Investment Bank and SCB;

(ii) On 1 December 2010, KNM International Sdn Bhd (**"KNMI"**), a wholly-owned subsidiary of our Company, had entered into a Shareholders Agreement with Aveng (Africa) Limited (**"AVENG"**) towards *inter-alia*, the establishment of a joint-venture company known as KNM Grinaker-LTA (Proprietary) Limited on a 49.9% (KNMI) : 50.1% (AVENG) basis;

(iii) On 3 December 2010, KNM International Sdn Bhd ("**KNMI**") and KNM Process Systems Sdn Bhd ("**KNMPS**"), both subsidiaries of KNM, entered into a Private Instrument of Settlement ("**Private Instrument of Settlement**") with Joao Ronaldo Pereira ("**JRP**"), Jose Maria Vieira de Novaes ("**JMVN**") and Rozimiro Ferreira Lopes ("**RFL**") (JRP, JMVN and RFL shall be collectively known as the "**Previous Shareholders**"), as supplemented by a Declaration dated 23 December 2010 by the Previous Shareholders, for, amongst others, the transfer of all their shares in KNM Equipamentos S.A., KNM Industrial Ltda and KNM Servicos Ltda to KNMPS and KNMI for a total cash consideration of BRL1 in relation to the breach of certain warranties and obligations of the Previous Shareholders under:

(a) the Memorandum of Agreement entered into between KNMI and the Previous Shareholders on 12 December 2007; and

(b) the Share Sale and Purchase Agreements entered into between KNMI, KNMPS and the Previous Shareholders on 18 August 2008;

(iv) On 13 December 2010 KNM had entered into a Joint Venture Agreement with Petrosab Logistik Sdn Bhd ("**PETROSAB**")("**KNM-PETROSAB JVA**") towards inter alia:

(a) the establishment of a joint venture company known as KNM Petrosab Sdn Bhd (now known as Petrosab Petroleum Sdn Bhd) ("PPSB") to act as an investment holding company on a 51% (KNM) : 49% (PETROSAB) basis; and

(b) PPSB in turn, shall form Project Companies to target oil and gas projects in Sabah.

(v) KNM had on 28 June 2011 entered into a Shareholders' Agreement which superseded the KNM-PETROSAB JVA, whereby:-

(a) KNM will subscribe for an additional 39,999 ordinary shares of RM1 each in PPSB for a total cash consideration of RM39,999. This additional 39,999 ordinary shares together with the previous 1 ordinary share held represents 40% of the enlarged issued and paid up share capital of PPSB; and

(b) KNM OGPET (Sabah) Sdn Bhd will subscribe for 1,500,000 ordinary shares of RM1 each in KNMPE (representing 30% of the enlarged issued and paid up share capital of KNMPE) for RM1,500,000; whereas, PPSB will subscribe for 3,499,998 ordinary shares of RM1.00 each in KNMPE for RM3,499,998 which, together with the previous 2 ordinary shares held represents 70% of the enlarged issued and paid up share capital of KNMPE;

(vi) KNM Renewable Energy Sdn Bhd, a wholly-owned subsidiary of KNM, had on 6 December 2011 entered into a Share Subscription Agreement with Green Energy and Technology Sdn Bhd ("**GreenTech**") and Octagon Consolidated Berhad ("**Octagon**") to subscribe for a total of 10 million 8% Redeemable Convertible Preference Shares of RM0.01 each ("**RCPS**") in GreenTech, a subsidiary of Octagon for a total cash consideration of RM10 million only or RM1 per RCPS;

(vii) In respect of the acquisition of Poplar Investments Limited ("**PIL**"), the following agreements have been entered into:-

(a) KMK Power Sdn Bhd ("**KMK**"), a wholly owned subsidiary of KNM, had on 25 January 2012 entered into an Exclusivity Agreement with Poplar Holdings Limited ("**PHL**")("**KMK-PHL Exclusivity Agreement**") for the grant of exclusivity by PHL to KMK to conclude the proposed acquisition of the entire issued share capital of PIL for GBP25 million;

(b) Pursuant to the KMK-PHL Exclusivity Agreement, KMK entered into an Agreement for Sale and Purchase of Shares with PHL on 8 February 2012 ("**KMK-PHL SPA**") for the acquisition of one (1) ordinary share of GBP1 representing 100% equity interest in PIL for a total cash consideration of GBP25 million which may be adjusted in accordance with the terms of the KMK-PHL SPA ("**Acquisition**");

(c) On 10 April 2012, KMK entered into a Deed of Variation (the "**1st Deed of Variation**") with PHL to *inter alia,* extend the time for completion of the Acquisition. In consideration of the extension granted by PHL, KMK has paid PHL the sum of GBP65,000 on the date of the 1st Deed of Variation;

(d) Subsequent to the 1st Deed of Variation, a second extension to *inter alia,* extend the time for completion of the Acquisition was granted on 18 May 2012 upon execution of a Deed of Variation (the "**2nd Deed of Variation**") by KMK with PHL. In consideration of this second extension, KMK has paid PHL a further sum of GBP65,000.00 on the date of the 2nd Deed of Variation;

(e) On 8 June 2012, KMK secured from PHL an extension for completion of the Acquisition to 7 August 2012. In consideration of the extension of time granted by PHL, KMK has paid PHL a further sum of GBP192,877 as agreed interest on even date; and

(f) On 14 August 2012, KMK has entered into a third Deed of Variation (the "**3rd Deed of Variation**") with PHL to *inter alia,* vary the terms of the KMK-PHL SPA and extend the Completion Date for the Acquisition from 7 August 2012 to 31 October 2012. In consideration thereof, KMK is required to pay PHL GBP355,000 a month as consideration for this extension of time for thc period beginning 8 August 2012 until 31 October 2012 with such amount to be pro-rated according to the terms of the 3rd Deed of Variation in the event that Completion takes place prior to 31 October 2012;

(viii) An underwriting agreement dated 28 September 2012 entered into between our Company and RHB Investment Bank, TA Securities Holdings Berhad, Mercury Securities Sdn Bhd, M&A Securities Sdn Bhd and OSK Investment Bank Berhad for the underwriting of up to 320,350,037 Right Shares for an underwriting commission of 2.5% and an additional managing underwriter fee of 0.5% on the First Call price of RM0.40 per Rights Share; and

(ix) The deed poll dated 4 October 2012 executed by our Company constituting the Warrants.

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4. **MATERIAL LITIGATIONS, CLAIMS OR ARBITRATION**

Save as disclosed below, as at the LPD (unless otherwise updated below), neither our Company nor our subsidiaries is engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which may have a material and adverse effect on the business or financial position of our Group and your Board is not aware of any proceedings, pending or threatened, against our Company or our subsidiaries, or of any fact likely to give rise to any proceedings which may materially and adversely affect the business or financial position of our Group:-

(i) **KNM Process Systems Sdn Bhd v Mission Biofuels Sdu Bhd (Kuala Lumpur High Court Suit No.: 22NCC-320-03/2012)**

On 22 November 2011, Mission Biofuels Sdn Bhd (**"Mission Biofuels"**) has, via its solicitor's letter dated 22 November 2011, alleged that it has a claim against KNM Process Systems Sdn Bhd (**"KNM Process Systems"**) for liquidated damages and other payments made by Mission Biofuels on behalf of KNM Process Systems amounting to RM18,152,425.53 pursuant to an Engineering, Procurement, Construction and Commissioning contract dated 25 July 2007 ("**EPCC Contract**").

KNM Process Systems subsequently commenced an action against Mission Biofuels on 7 March 2012 for the outstanding contract sum of RM49,857,934.70 pursuant to the EPCC Contract.

In response, Mission Biofuels filed an application for a stay of the proceedings on 30 March 2012 on the grounds that the dispute is subject to arbitration. The order for stay in the proceedings was granted by the Kuala Lumpur High Court on 18 May 2012 and on 25 September 2012, the proceedings before the Kuala Lumpur High Court were withdrawn, as the dispute is subject to arbitration.

KNM Process Systems and Mission Biofuels have agreed for the arbitration to be conducted in Malaysia, subject to certain conditions being agreed between the parties. The arbitration proceedings have not commenced.

The solicitors acting on behalf of KNM Process Systems are of the view that KNM Process Systems might have a reasonable prospect of succeeding in the arbitration proceedings against Mission Biofuels, subject to the availability of witnesses and all necessary documentary evidence to support the case.

ILSE has a 10.6% shareholding interest in Mission NewEnergy Limited, the holding company of Mission Biofuels.

(ii) **KNM Process Systems Sdn Bhd v Mission Biofuels Sdn Bhd (Kuala Lumpur High Court Suit No.: 24NCC(ARB)-33-08/2012)**

KNM Process Systems has filed an Originating Summons and Affidavit in Support on 16 August 2012, seeking an order for Mission Biofuels to deposit the sum of RM49,857,934.70 with KNM Process Systems' solicitors, as stakeholders, to prevent Mission Biofuels from dissipating its assets before the conclusion of the arbitration proceedings described in paragraph 4(i) above ("**Application for Security**"). The Application for Security is fixed for hearing / case management on 2 November 2012.

The solicitors acting on behalf of KNM Process Systems are of the view that KNM Process Systems might have a reasonable prospect of succeeding in its claim against Mission Biofuels, subject to the availability of the necessary documentary evidence to support the case.

ILSE has a 10.6% shareholding interest in Mission NewEnergy Limited, the holding company of Mission Biofuels.

(iii) **Poratha Corporation Sdn Bhd v KNM Process Systems Sdn Bhd (Johor Bahrn High Court Snit No.: 23NCVC-192-10/2011, transferred to Shah Alam High Court Suit No.: 22NCVC-914-07/2012)**

On 28 October 2011, Poratha Corporation Sdn Bhd ("**Poratha Corporation**") filed a claim against KNM Process Systems for (i) a sum of RM213,272.48, being the aggregate of the balance contract sum, retention sum and sum for the additional work performed pursuant to a Sub-Contract Agreement between Poratha Corporation and KNM Process Systems ("**Poratha Corporation-KNM Process Contract**") for the supply by Poratha Corporation of, amongst others, manpower, supervision, handtools, transportation and accommodation to enable the completion of fabrication works and to meet the mechanical completion date pursuant to the Purchase Order dated 22 March 2011 (Purchase Order No.:11900180 YS 00002) ("**Purchase Order**"); and (ii) general damages in the amount of RM100,000.

KNM Process Systems is defending the claim by Poratha Corporation and counterclaimed for, amongst others, (a) a sum of RM207,067.92, being the losses suffered by KNM Process Systems due to Poratha Corporation's breach and failure to comply with the terms of the Purchase Order; and (b) a sum of USD6,504,000, being the loss of opportunity / loss of future contract suffered by KNM Process Systems due to Poratha Corporation's failure to efficiently perform the Poratha Corporation-KNM Process Contract.

KNM Process Systems has applied for the proceedings to be transferred from the Johor Bahru High Court to the Shah Alam High Court. On 28 March 2012, the Johor Bahru High Court granted the order approving the transfer of proceedings. The matter is presently fixed for case management on 5 October 2012 and trial from 29 October 2012 to 31 October 2012.

The solicitors acting on behalf of KNM Process Systems are of the view that (i) KNM Process Systems has a reasonable prospect of defending against the claim by Poratha Corporation; and (ii) KNM Process Systems' chances of success in its counterclaim against Poratha Corporation is dependent on its ability to prove the losses it has suffered due to Poratha Corporation's breach.

5. GENERAL

(i) None of our Directors has any existing or proposed service contracts with our Company or our subsidiaries, excluding contracts expiring or determinable by the employing company without payments or compensation (other than statutory compensation) within one (1) year from the date of this AP.

(ii) Save as disclosed in this AP and to the best of knowledge of our Board, the financial conditions and operations of our Group are not affected by the following:-

(a) known trends, demands, commitments, events or uncertainties that will or are likely to materially increase or decrease the liquidity of our Group; and

(b) save as disclosed in this AP (where relevant), our Board is not aware of any material information including trade factors or risks, which are unlikely to be known or anticipated by the general public and which could materially affect our profits.

6. WRITTEN CONSENTS

Our Principal Adviser, Underwriters, Solicitors for the Rights Issue, Solicitors for the Underwriters, Share Registrar and Prineipal Bankers have given their full consents to the inclusion in this AP of their names in the form, manner and context in which such names appear before the issuance of this AP and their consents have not been subsequently withdrawn.

Our Auditors and Reporting Accountants for the Rights Issue have given their consent to the inclusion of the auditors' report on the consolidated financial statements of our Company for FYE 31 December 2011 and the letter on the Proforma Consolidated Statements of Financial Position of our Company as at 31 December 2011 respectively and their name in the form, manner and context in which they appear before the issuance of this AP and their consents have not been subsequently withdrawn.

7. DOCUMENTS FOR INSPECTION

Copies of the following documents will be made available for inspection at our Registered Office at 15 Jalan Dagang SB4/1, Taman Sungei Besi Indah, 43300 Seri Kembangan Selangor Darul Ehsan, during normal business hours from Monday to Friday (except public holidays) for a period of twelve (12) months from the date of this AP:-

(i) our Company's Memorandum and Articles of Association;

(ii) the Deed Poll dated 4 October 2012 constituting the Warrants;

(iii) the audited and consolidated financial statements of our Company for the past two (2) FYE 31 December 2010 and 31 December 2011;

(iv) the unaudited consolidated financial statements of our Company for the 6-month FPE 30 June 2012;

(v) Proforma Consolidated Financial Statements of Financial Position of our Company as at 31 December 2011 together with the Reporting Accountants' letter thereon as set out in Appendix III of this AP;

(vi) our Directors' Report as set out in Appendix VI;

(vii) the material contracts referred to in Section 3 above;

(viii) the writ and relevant eause papers in respect of the material litigations referred to in Section 4 above;

(ix) the letters of consent referred to in Section 6 above; and

(x) the undertaking letters dated 27 July 2012 together with the supplemental letter dated 16 August 2012 from Inter Merger, ILSE, GSL and Tegas Klasik for the Undertakings and the undertaking letter dated 27 September 2012 from Inter Merger for the Additional Undertaking as referred to in Section 9 of this AP.

8. RESPONSIBILITY STATEMENTS

Your Board has seen and approved of the Documents and they acknowledge and accept full responsibility for the accuracy of the information given and confirmed that, after having made all reasonable enquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make the statements in the Documents false or misleading.

RHB Investment Bank being the Principal Adviser for the Rights Issue, acknowledges that, based on all available information and to the best of their knowledge and belief, this AP constitutes a full and true disclosure of all material facts concerning the Rights Issue.