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

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 to the agent/broker through whom you effected the sale/transfer for onward transmission to the purchaser/transferee. All enquiries concerning the Rights Issue with Warrants, which is the subject of this AP 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 with Warrants are only despatched to our Entitled Shareholders at their registered addresses in Malaysia or who have provided our Share Registrar with a registered address in Malaysia and whose names appear in our Record of Depositors maintained by Bursa Depository at 5.00 p.m. on 27 March 2015. The Documents are not intended to be (and will not be) issued, circulated or distributed, and the Rights Issue with Warrants will not be made or offered or deemed to be made or offered in any countries or jurisdictions other than Malaysia. Persons receiving the Documents (including without limitation, custodians, nominees and trustees), must not, in connection with the Rights Issue with Warrants distribute or send the Documents outside of Malaysia. No action has been or will be taken to ensure that the Rights Issue with Warrants and the Documents comply with the laws of any countries or jurisdictions other than the laws of Malaysia. The Rights Issue with Warrants to which the Documents relate is only available to persons receiving the Documents within Malaysia. The Documents do not constitute an offer, solicitation or invitation to subscribe for the Rights Issue with Warrants in any jurisdictions other than Malaysia or to any person to whom it may be unlawful to make such an offer, solicitation or invitation. It shall be the sole responsibility of the Entitled Shareholders and/or their renouncee(s) (where 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 or renunciation (as the case may be) of their entitlements to the Rights Issue with Warrants would result in the contravention of any law of such countries or jurisdictions. Such Entitled Shareholders and/or their renouncee(s) (if applicable) should also note the additional terms and restrictions as set out in Section 10 of this AP. Our Company, Affin Hwang IB and other experts shall not be responsible or liable howsoever in the event that any acceptance or sale/renunciation (as the case may be) made by the Entitled Shareholders and/or their renouncee(s) (if applicable) is or shall become illegal, unenforceable, voidable or void in any countries or jurisdictions in which the Entitled Shareholders and/or their renouncee(s) (if applicable) is a resident.

A copy of this AP has been registered with the SC. The registration of this AP should not be taken to indicate that the SC recommends the Rights Issue with Warrants 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, have also been lodged with the Registrar of Companies who takes no responsibility for their contents.

Approval for the Rights Issue with Warrants has been obtained from our shareholders at the EGM held on 19 December 2014. Approval has also been obtained from Bursa Securities vide its letter dated 21 November 2014 for amongst others, the admission of Warrants B to the Official List of Bursa Securities and the listing of and quotation for the Rights Shares, Warrants B and the new KNM Shares to be issued arising from the exercise of Warrants B on the Main Market of Bursa Securities. The approval is not an indication that Bursa Securities recommends the Rights Issue with Warrants, and is in no way reflective of the merits of the Rights Issue with Warrants. The admission of Warrants B to the Official List of Bursa Securities and listing of and quotation for the Right Shares and Warrants B and the new KNM Shares to be issued upon exercise of the Warrants B will commence after, amongst others, receipt of confirmation from Bursa Depository that all the CDS Accounts of the Entitled Shareholders and/or their renouncee(s) (if applicable) have been duly credited and notices of allotment have been despatched to them.

Our Board has seen and approved all the documentation relating to the Rights Issue with Warrants. 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.

Affin Hwang IB, being the Principal Adviser, Managing Underwriter and Co-Underwriter for the Rights Issue with Warrants, 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 with Warrants.

FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE "RISK FACTORS" AS SET OUT IN SECTION 6 OF THIS AP.

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

RENOUNCEABLE RIGHTS ISSUE OF UP TO 430,431,442 NEW ORDINARY SHARES OF RM0.50 EACH IN KNM GROUP BERHAD ("KNM") ("KNM SHARE(S)" OR "SHARE(S)") ("RIGHTS SHARE(S)") ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 5 EXISTING KNM SHARES HELD AS AT 5.00 P.M. ON FRIDAY, 27 MARCH 2015, TOGETHER WITH UP TO 215,215,721 NEW FREE DETACHABLE WARRANTS ("WARRANT(S) B") ON THE BASIS OF 1 WARRANT B FOR EVERY 2 RIGHTS SHARES SUBSCRIBED FOR, AT AN ISSUE PRICE OF RM0.50 PER RIGHTS SHARE ("RIGHTS ISSUE WITH WARRANTS")

Principal Adviser, Managing Underwriter & Co-Underwriter

AFFIN HWANG INVESTMENT BANK BERHAD
(Company No.: 14389-U)
(Formerly known as HwangDBS Investment Bank Berhad)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Co-Underwriter

(Company No.: 23878-X)
MIDF AMANAH INVESTMENT BANK BERHAD
(A Participating Organisation of Bursa Malaysia Securities Berhad)

IMPORTANT RELEVANT DATES AND TIME:-

Entitlement Date	:	Friday, 27 March 2015 at 5.00 p.m.
Last date and time for sale of provisional allotment of rights	:	Friday, 3 April 2015 at 5.00 p.m.
Last date and time for transfer of provisional allotment of rights	:	Wednesday, 8 April 2015 at 4.00 p.m.
Last date and time for acceptance and payment	:	Monday, 13 April 2015 at 5.00 p.m.*
Last date and time for excess rights application and payment	:	Monday, 13 April 2015 at 5.00 p.m.*

* *or such later date and time as our Board may determine and announce not less than two (2) Market Days before the stipulated date and time.*

This Abridged Prospectus is dated 27 March 2015

ALL TERMS AND ABBREVIATIONS USED HEREIN SHALL HAVE THE SAME MEANING AS THOSE DEFINED IN THE "DEFINITIONS" SECTION OF THIS AP UNLESS STATED OTHERWISE.

THE SC AND BURSA SECURITIES ARE NOT LIABLE FOR ANY NON-DISCLOSURE ON OUR PART OF OUR COMPANY 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.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT IN OUR COMPANY. IN CONSIDERING THE INVESTMENT, IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

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

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

THE DISTRIBUTION OF THE AP, TOGETHER WITH THE OTHER DOCUMENTS IS SUBJECT TO MALAYSIAN LAWS. WE AND OUR ADVISERS ARE NOT RESPONSIBLE FOR THE DISTRIBUTION OF THE DOCUMENTS OUTSIDE OF MALAYSIA. WE AND OUR ADVISERS HAVE NOT TAKEN ANY ACTION TO PERMIT AN OFFERING OF OUR SECURITIES BASED ON THE DOCUMENTS OR THE DISTRIBUTION OF THE DOCUMENTS OUTSIDE OF MALAYSIA. THE DOCUMENTS MAY NOT BE USED FOR AN OFFER TO SELL OR AN INVITATION TO BUY OUR SECURITIES IN ANY COUNTRY OR JURISDICTION OTHER THAN MALAYSIA. WE AND OUR ADVISERS REQUIRE YOU TO INFORM YOURSELF OF SUCH RESTRICTIONS AND TO OBSERVE THEM.

THE DOCUMENTS HAVE BEEN PREPARED AND PUBLISHED SOLELY FOR THE RIGHTS ISSUE WITH WARRANTS UNDER THE LAWS OF MALAYSIA. WE AND OUR ADVISERS HAVE NOT AUTHORISED ANYONE TO PROVIDE YOU WITH INFORMATION WHICH IS NOT CONTAINED IN THE DOCUMENTS.

DEFINITIONS

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

AP	:	This Abridged Prospectus dated 27 March 2015 in relation to the Rights Issue with Warrants
Act	:	Companies Act, 1965
Additional ESOS Options	:	Up to 15,694,725 additional ESOS options to be issued pursuant to the adjustments in accordance with the provisions of the ESOS By Laws as a result of the Rights Issue with Warrants
Additional Warrants A	:	Up to 29,503,369 additional Warrants A to be issued pursuant to the adjustments in accordance with the provisions of the Deed Poll A as a result of the Rights Issue with Warrants
Affin Hwang IB	:	Affin Hwang Investment Bank Berhad *(formerly known as HwangDBS Investment Bank Berhad)*
Amendment	:	Amendment to the MA of KNM to amend the authorised share capital of KNM from RM1,125,000,000 comprising 2,250,000,000 KNM Shares to RM2,500,000,000 comprising 5,000,000,000 KNM Shares, which was completed on 19 December 2014
Aveda	:	Aveda Assets Capital Inc.
Board	:	Board of Directors of KNM
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd
Bursa Securities	:	Bursa Malaysia Securities Berhad
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)	:	A securities account established by Bursa Depository for a depositor pursuant to the SICDA and the Rules of Bursa Depository for the recording of deposits of securities and dealings in such securities by that depositor of securities
CMSA	:	Capital Markets and Services Act, 2007
Corporate Exercises	:	Rights Issue with Warrants, Increase in Authorised Share Capital and Amendment, collectively
Code	:	The Malaysian Code on Take-Overs and Mergers 2010
Company or KNM	:	KNM Group Berhad
Deed Poll A	:	The Deed Poll dated 4 October 2012 constituting Warrants A
Deed Poll B	:	The Deed Poll dated 13 March 2015 constituting Warrants B
Documents	:	AP, NPA and RSF, collectively
EBITDA	:	Earnings before interest, taxation, depreciation and amortisation
EGM	:	Extraordinary General Meeting

DEFINITIONS

Entitled Shareholder(s)	:	The shareholders of KNM whose name(s) appear in the Record of Depositors of the Company on the Entitlement Date
Entitlement Date	:	As at 5.00 p.m. on 27 March 2015, being the time and date on which our shareholders must be registered in our Record of Depositors in order to be entitled to participate in the Rights Issue with Warrants
EPS	:	Earnings per Share
ESOS	:	KNM's Employees Share Option Scheme which was implemented on 20 May 2014
ESOS By Laws	:	ESOS By Laws adopted by our Company on 15 May 2014
Excess Rights Shares with Warrants B	:	Rights Shares with Warrants B which are not taken up or not validly taken up by the Entitled Shareholders and/or their renouncee(s) prior to excess rights application pursuant to the Rights Shares with Warrants
Foreign Entitled 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 with Warrants
FPE	:	Financial period ended
FYE	:	Financial year(s) ended/ending
GSL	:	Gan Siew Liat
ILSE	:	Ir Lee Swee Eng
Increase in Authorised Share Capital	:	Increase in the authorised share capital of KNM from RM1,125,000,000 comprising 2,250,000,000 KNM Shares to RM2,500,000,000 comprising 5,000,000,000 KNM Shares, which was completed on 19 December 2014
Inter Merger	:	Inter Merger Sdn Bhd
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	28 February 2015, being the latest practicable date prior to the registration of this AP with the SC
MA	:	Memorandum of Association
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
Maximum Scenario	:	Assuming all treasury shares as at the LPD are resold on the open market of Bursa Securities and all of the outstanding Warrants A and ESOS options are exercised prior to the implementation of the Corporate Exercises
McDermott	:	McDermott Industries Ltd
Minimum Scenario	:	Assuming none of the treasury shares as at the LPD are resold on the open market of Bursa Securities and none of the outstanding Warrants A and ESOS options are exercised prior to the implementation of the Corporate Exercises

DEFINITIONS

NA	:	Net assets
NPA	:	Notice of provisional allotment of the Rights Shares with Warrants B pursuant to the Rights Issue with Warrants
Official List	:	A list specifying all securities which have been admitted for listing on Bursa Securities
Par Value Reduction	:	Par value reduction of KNM Shares from RM1.00 to RM0.50 per Share pursuant to Section 64 of the Act, which was completed on 30 April 2014
Price-Fixing Date	:	17 February 2015, being the date on which the Company had fixed and announced the entitlement basis for the Rights Issue with Warrants, issue price for the Rights Shares and exercise price for the Warrants B
Private Placement	:	Private placement of 146,674,100 KNM Shares at RM0.70 per KNM Share, which was completed on 30 May 2014
Proposed Acquisition	:	Proposed acquisition by KNM Renewable Energy Sdn Bhd, a wholly owned subsidiary of KNM of the entire equity interest in ABL Bio-Fuels Limited and Asia Biofuels II Ltd, which collectively own a combined 72% equity interest in Impress Ethanol Co., Ltd and 49% equity interest in Impress Farming Co. Ltd from FE Global/Asia Clean Energy Services Fund L.P., FEGACE Asia Sub-Fund, L.P., and Global Clean Energy Corporation SPC, for a total consideration of USD24.0 million (equivalent to RM88.49 million based on the exchange rate of USD1:RM3.687) pursuant to a Share Purchase Agreement dated 12 March 2015
Provisional Rights Shares with Warrants B	:	Rights Shares with Warrants B provisionally allotted to Entitled Shareholders
Record of Depositors	:	A record of depositors established by Bursa Depository under the Rules of Bursa Depository
Rights Issue with Warrants	:	The renounceable rights issue of up to 430,431,442 Rights Shares on the basis of 1 Rights Share for every 5 existing KNM Shares held as at the Entitlement Date, together with up to 215,215,721 Warrants B on the basis of 1 Warrant B for every 2 Rights Shares subscribed for, at an issue price of RM0.50 for each Rights Share
Rights Share(s)	:	Up to 430,431,442 new KNM Share(s) to be issued pursuant to the Rights Issue with Warrants
RSF	:	Rights subscription form in relation to the Rights Issue with Warrants
Rules of Bursa Depository	:	The rules of Bursa Depository issued pursuant to the SICDA
SC	:	Securities Commission Malaysia
Share(s) or KNM Share(s)	:	Ordinary share(s) of RM0.50 each in KNM
SICDA	:	Securities Industry (Central Depositories) Act, 1991
Tegas Klasik	:	Tegas Klasik Sdn Bhd

DEFINITIONS

TERP	:	Theoretical ex-rights price
Undertakings	:	The written irrevocable undertakings from:- (a) KNM's substantial shareholders, namely Inter Merger, ILSE and GSL dated 13 November 2014; and (b) Tegas Klasik, McDermott and Aveda, being companies related to ILSE dated 13 November 2014; to subscribe or procure subscription in full for their respective entitlements to the Rights Shares under the Rights Issue with Warrants as at the Entitlement Date. Aveda had on 27 November 2014 further provided a written irrevocable undertaking dated on even date to subscribe for the corresponding additional Rights Shares entitlement together with the corresponding Warrants B entitlement as a result of the transfer by McDermott on 27 November 2014 of its 28 million KNM Shares to Aveda. Inter Merger and Tegas Klasik had on 11 March 2015 further provided written irrevocable undertakings dated on even date to subscribe in full for their respective entitlements to the Rights Shares together with the corresponding Warrants B entitlement as a result of the transfer by Tegas Klasik on 11 March 2015 of its 8 million KNM Shares to Inter Merger.
Undertaking Shareholders	:	The following substantial shareholders/shareholders who provided written irrevocable undertakings to subscribe or procure subscription in full for their respective entitlements to the Rights Shares under the Rights Issue with Warrants:- (a) substantial shareholders, namely, Inter Merger, ILSE and GSL; and (b) Tegas Klasik, McDermott and Aveda, being companies related to ILSE
Underwriters	:	Affin Hwang IB and MIDF Amanah Investment Bank Berhad, collectively
Underwriting Agreement	:	The underwriting agreement dated 13 March 2015 between the Company and the Underwriters in relation to the Rights Issue with Warrants
Underwritten Portion	:	The remaining portion of the Rights Shares with Warrants B for which no undertaking is obtained
VWAP	:	Volume weighted average market price
Warrants A	:	The existing 488,920,659 warrants in KNM as at the LPD issued on 16 November 2012 and expiring on 15 November 2017
Warrants B	:	Up to 215,215,721 free detachable warrants in KNM to be issued pursuant to the Rights Issue with Warrants

Currency

AED	:	Dirham, the official currency of the United Arab Emirates
BND	:	Bruneian Dollar, the official currency of Negara Brunei Darussalam
CAD	:	Canadian Dollar, the official currency for Canada

DEFINITIONS

EUR	:	Euro, the official currency of the European Union
GBP	:	Pound Sterling, the official currency of the United Kingdom and its territories
HKD	:	Hong Kong Dollar, the official currency of the Hong Kong Special Administrative Region of the People's Republic of China
INR	:	Indian Rupee, the official currency of the Republic of India
RM and sen	:	Ringgit Malaysia and sen, respectively
SAR	:	Saudi Arabian Riyal, the official currency of Saudi Arabia
SGD	:	Singapore Dollar, the official currency of Singapore
THB	:	Baht, the official currency of Thailand
USD	:	United States Dollars, the official currency of the United States of America

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*. Words denoting the masculine gender shall, where applicable, include the feminine and/or neuter gender(s), and *vice versa*. Any references to persons shall include corporations, unless otherwise specified.

Any reference in this AP to any statutes, rules, regulations or rules of the stock exchange is a reference to such statutes, rules, regulations or rules of the stock exchange currently in force and as may be amended from time to time and any re-enactment thereof.

Any reference to time of day in this AP shall be a reference to Malaysian time, unless otherwise specified.

Any discrepancies in the tables included in the AP between the amounts listed, actual figures and the totals thereof are due to rounding.

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CORPORATE DIRECTORY

OUR BOARD

Name *(Designation)*	Address	Nationality	Profession
Dato' Ab Halim bin Mohyiddin *(Independent Non-Executive Chairman)*	No. 30 Jalan Kelab Golf 13/6 40000 Shah Alam Selangor Darul Ehsan	Malaysian	Company Director
Ir Lee Swee Eng *(Chief Executive Officer/Executive Director)*	72 Jalan Tropicana Utama Tropicana Golf & Country Resort 47400 Petaling Jaya Selangor Darul Ehsan	Malaysian	Company Director
Dato' Dr Khalid bin Ngah *(Senior Independent Non-Executive Director)*	18175, Jalan Melati Indah 1 Kemensah Heights 53100 Kuala Lumpur	Malaysian	Company Director
Dato' Adnan bin Wan Mamat *(Independent Non-Executive Director)*	13A-01, Block A 2Hampshire Persiaran Hampshire 50450 Ampang Kuala Lumpur	Malaysian	Company Director
Soh Yoke Yan *(Independent Non-Executive Director)*	15 Jalan Titian U8/42 Bukit Jelutong 40150 Shah Alam Selangor Darul Ehsan	Malaysian	Company Director
Gan Siew Liat *(Executive Director)*	72 Jalan Tropicana Utama Tropicana Golf & Country Resort 47400 Petaling Jaya Selangor Darul Ehsan	Malaysian	Company Director
Chew Fook Sin *(Executive Director)*	3A Jalan Awan Kelarai Taman Yarl 58200 Kuala Lumpur	Malaysian	Company Director

AUDIT COMMITTEE

Name	Designation	Directorship
Dato' Ab Halim bin Mohyiddin	Chairman	Independent Non-Executive Chairman
Dato' Dr Khalid bin Ngah	Member	Senior Independent Non-Executive Director
Dato' Adnan bin Wan Mamat	Member	Independent Non-Executive Director
Soh Yoke Yan	Member	Independent Non-Executive Director

CORPORATE DIRECTORY

COMPANY SECRETARY	:	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 SB 4/1 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 WITH WARRANTS	:	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 WITH WARRANTS	:	Bahari & Bahari D4-U3-13 Solaris Dutamas Jalan Dutamas 1 50480 Kuala Lumpur Tel. No.: (603) 6205 4 777 Fax. No.: (603) 6205 4 555
PRINCIPAL BANKERS *(in alphabetical order)*	:	BNP Paribas Labuan Branch Level 9(D), Financial Park Labuan Jalan Merdeka 87000 W.P. Labuan Tel. No.: (6087) 422 328 Fax. No.: (6087) 419 328 Malayan Banking Berhad Menara Maybank 100, Jalan Tun Perak 50050 Kuala Lumpur Tel. No.: (603) 2070 8833 Fax. No.: (603) 2715 9442

CORPORATE DIRECTORY

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 8151/8152
PRINCIPAL ADVISER, MANAGING UNDERWRITER AND CO-UNDERWRITER	:	Affin Hwang Investment Bank Berhad *(formerly known as HwangDBS Investment Bank Berhad)* 27th Floor, Menara Boustead 69 Jalan Raja Chulan 50200 Kuala Lumpur Tel. No.: (603) 2142 3700 Fax. No.: (603) 2141 7701
CO-UNDERWRITER	:	MIDF Amanah Investment Bank Berhad Level 21, Menara MIDF, No. 82, Jalan Raja Chulan, 50200 Kuala Lumpur Tel. No.: (603) 2078 6600 Fax. No.: (603) 2173 8388
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 SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan
Malaysia

27 March 2015

Board of Directors
Dato' Ab Halim bin Mohyiddin *(Independent Non-Executive Chairman)*
Ir Lee Swee Eng *(Chief Executive Officer/Executive Director)*
Dato' Dr Khalid bin Ngah *(Senior Independent Non-Executive Director)*
Dato' Adnan bin Wan Mamat *(Independent Non-Executive Director)*
Soh Yoke Yan *(Independent Non-Executive Director)*
Gan Siew Liat *(Executive Director)*
Chew Fook Sin *(Executive Director)*

To: Our Shareholders

Dear Sir / Madam,

RENOUNCEABLE RIGHTS ISSUE OF UP TO 430,431,442 RIGHTS SHARES ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 5 EXISTING KNM SHARES HELD AS AT 5.00 P.M. ON FRIDAY, 27 MARCH 2015, TOGETHER WITH UP TO 215,215,721 WARRANTS B ON THE BASIS OF 1 WARRANT B FOR EVERY 2 RIGHTS SHARES SUBSCRIBED FOR, AT AN ISSUE PRICE OF RM0.50 PER RIGHTS SHARE

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1. INTRODUCTION

On 17 October 2014, Affin Hwang IB had, on behalf of our Board, announced that we proposed to undertake, *inter-alia*, the Rights Issue with Warrants.

On 24 November 2014, Affin Hwang IB had, on behalf of our Board, announced that Bursa Securities had vide its letter dated 21 November 2014 approved the following (**"Initial Approval"**):-

(a) admission to the Official List and the listing and quotation of up to 215,245,381 Warrants B to be issued pursuant to the Rights Issue with Warrants;

(b) listing and quotation of up to 430,490,762 Rights Shares to be issued pursuant to the Rights Issue with Warrants;

(c) listing and quotation of up to 215,245,381 new KNM Shares to be issued pursuant to the exercise of the Warrants B;

(d) listing and quotation of up to 16,013,094 additional Warrants A to be issued arising from the adjustments pursuant to the Rights Issue with Warrants;

(e) listing and quotation of up to 16,013,094 new KNM Shares to be issued pursuant to the exercise of the Additional Warrants A; and

(f) listing and quotation of up to 11,074,934 new KNM Shares to be issued pursuant to the exercise of the Additional ESOS Options arising from ESOS adjustments pursuant to the Rights Issue with Warrants.

The above approval is subject to the following conditions:

No.	Conditions imposed	Status of compliance
1.	KNM and Affin Hwang IB must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Rights Issue with Warrants;	Noted.
2.	KNM and Affin Hwang IB to inform Bursa Securities upon the completion of the Rights Issue with Warrants;	To be complied.
3.	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 with Warrants is completed;	To be complied.
4.	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 B and Warrants A as at the end of each quarter together with a detail computation of listing fees payable; and	To be complied.
5.	To incorporate Bursa Securities' comments in respect of the draft Circular to shareholders.	Complied.

On 19 December 2014, our shareholders had approved the Corporate Exercises at our EGM. A certified true extract of the resolutions pertaining to the Corporate Exercises which were passed at the said EGM is set out in Appendix I of this AP.

On 17 February 2015, Affin Hwang IB had, on behalf of our Board, announced the following:-

(i) the issue price for the Rights Issue with Warrants has been fixed at RM0.50 per Rights Share at an entitlement basis of 1 Rights Share for every 5 existing KNM Shares held by the Entitled Shareholders as at an entitlement date to be determined and announced later;

(ii) the entitlement basis of the Warrants B has been fixed at 1 Warrant B for every 2 Rights Shares subscribed for by the Entitled Shareholders; and

(iii) the exercise price of the Warrants B has been fixed at RM1.00 for each Warrant B.

A lower issue price of RM0.50 per Rights Share and exercise price of RM1.00 for each Warrant B was fixed on 17 February 2015 as compared to the indicative issue price of RM0.57 per Rights Share and RM1.50 for each Warrant B assumed under the Initial Approval. As a result, a higher number of additional Warrants A and number of additional ESOS options are to be issued pursuant to the Rights Issue with Warrants as well as the corresponding new KNM Shares to be issued arising from the exercise of the additional Warrants A and additional ESOS options.

Subsequently, on 13 March 2015, Affin Hwang IB had, on behalf of our Board, announced that Bursa Securities had vide its letter dated 13 March 2015 approved the following:

- listing and quotation of additional up to 13,490,275 Warrants A to be issued arising from the adjustments in accordance with the provisions of the Deed Poll A pursuant to the Rights Issue with Warrants, in addition to the Initial Approval;
- listing and quotation of additional up to 13,490,275 new KNM Shares to be issued arising from the exercise of the additional up to13,490,275 Warrants A, in addition to the Initial Approval; and
- listing and quotation of additional up to 4,619,791 new KNM Shares to be issued pursuant to the exercise of the additional up to 4,619,791 ESOS options arising from the adjustments in accordance with the provisions of the ESOS By Laws as a result of the Rights Issue with Warrants, in addition to the Initial Approval.

On 13 March 2015, Affin Hwang IB had, on behalf of the Board announced the Entitlement Date.

The admission of the Warrants B to the Official List of Bursa Securities and the listing of and quotation for the Rights Shares and Warrants B to be issued pursuant to the Rights Issue with Warrants will commence after, amongst others, 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 with Warrants and if given or made, such information or representation must not be relied upon as having been authorised by us or Affin Hwang IB. Bear in mind also that this AP shall not represent or imply that there have been no change in the Company's affairs since the issuance of this AP.

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 WITH WARRANTS

2.1 Details of the Rights Issue with Warrants

In accordance with the terms of the Rights Issue with Warrants as approved by our shareholders at our EGM held on 19 December 2014, and subject to the terms of these Documents, we shall provisionally allot up to 430,431,442 Rights Shares to the Entitled Shareholders on the basis of 1 Rights Share for every 5 existing KNM Shares held as at the Entitlement Date together with up to 215,215,721 Warrants B on the basis of 1 Warrant B for every 2 Rights Shares subscribed for, at an issue price of RM0.50 per Rights Share. The minimum and maximum number of Rights Shares with Warrants B to be provisionally allotted by the Board pursuant to the Rights Issue with Warrants is further shown in Section 8.1 of this AP.

The issue price of RM0.50 per Rights Share is payable in full on application in cash.

As at the LPD, the issued and paid-up share capital of KNM is RM819,517,826 comprising 1,639,035,652 KNM Shares (including 23,291,275 treasury shares[1]). In addition, as at the LPD, the Company has a total of the following:-

(a) 488,920,659 outstanding Warrants A. Each Warrant A carries the right to subscribe for 1 new KNM Share during the 5-year exercise period of Warrant A up to 15 November 2017 at an exercise price of RM1.00 per Warrant A; and

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1 *Treasury shares are KNM Shares that were purchased by our Company from the open market via share buy-back exercises undertaken by our Company and are retained in treasury in accordance to Section 6A(3A) of the Act. These treasury shares, if re-distributed and/or re-sold in accordance to Section 67A(3B) of the Act, will be re-listed and rank pari passu in all respects with the existing KNM Shares.*

(b) 212,491,400 ESOS options have been granted by the Company on 25 July 2014 to be vested equally over 8 years and subject to the performance of the grantee on an annual review. Out of the 212,491,400 ESOS options granted, 24,200,900 ESOS options (after taking into account 2,348,300 ESOS options exercised in August, September, October and November 2014 and 296,600 ESOS options lapsed due to resignation of KNM's employee(s)) were vested on 25 July 2014 and are yet to be exercised as at the LPD. Each ESOS option granted is entitled to subscribe for 1 new KNM Share at an exercise price of RM0.66 each pursuant to the ESOS By Laws during the 8-year ESOS option period of up to 26 May 2022.

Based on the above, in the event all the Entitled Shareholders and/or their renouncee(s) fully subscribe for their entitlements under the Rights Issue with Warrants, the number of Rights Shares and Warrants B that could be issued pursuant to the Rights Issue with Warrants would be:-

(i) 323,148,875 Rights Shares together with 161,574,438 Warrants B under the Minimum Scenario; or

(ii) up to 430,431,442 Rights Shares together with up to 215,215,721 Warrants B under the Maximum Scenario.

The above minimum and maximum number of Rights Shares with Warrants B that could be issued pursuant to the Rights Issue with Warrants is further shown in Section 8.1 of this AP.

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

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

As an Entitled Shareholder, you will find enclosed with this AP, a NPA setting out the number of provisionally allotted Rights Shares with Warrants which has been credited to your CDS Account based on your entitlement. You should use the attached RSF to accept the provisionally allotted Rights Shares with Warrants and to apply for the Excess Rights Shares with Warrants B, if you decide to do so.

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 our Board in its absolute discretion deem fit or expedient or in the best interest of our Company.

Unsubscribed Rights Shares with Warrants B will be made available for excess applications by other Entitled Shareholders and/or their renouncee(s).

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The Board reserves the right to allot the Excess Rights Shares with Warrants B applied for by the Entitled Shareholders for the Rights Issue of Warrants and/or their renouncee(s) in a fair and equitable manner, on such basis as it may deem fit or expedient and in the best interest of the Company. The basis for allotment of the Excess Rights Shares with Warrants B is set out below:-

(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 B on a pro-rata basis and in board lots, calculated based on their respective shareholdings as at the Entitlement Date;

(iii) thirdly, for allocation to Entitled Shareholders who have applied for the Excess Rights Shares with Warrants B on a pro-rata basis, calculated based on the quantum of their respective Excess Rights Shares with Warrants B application; and

(iv) finally, for allocation to the renouncee(s) (if applicable) who have applied for the Excess Rights Shares with Warrants B on a pro-rata basis, calculated based on the quantum of their respective Excess Rights Shares with Warrants B application.

The Rights Issue with Warrants will be undertaken on a full subscription basis.

Dealings in our securities are subject to SICDA and the Rules of Bursa Depository. As the Rights Shares, Warrants B and new Shares arising from the exercise of the Warrants B are all prescribed securities, they will, upon allotment and issuance, be credited directly into the respective CDS Accounts of Entitled Shareholders and/or their renouncee(s) (as the case may be) 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) (as the case may be) nor will any physical share certificate be issued for the new KNM Shares to be issued upon exercise of Warrants B.

We will allot and issue the Rights Shares with Warrants B, despatch notices of allotment to the successful applicants and make an application for the quotation for the Rights Shares and the Warrants B within 8 Market Days from the last date for acceptance and payment for the Right Shares or such period as may be prescribed by Bursa Securities. The Rights Shares and the Warrants B will then be quoted on the Main Market of Bursa Securities 2 Market Days after the application for quotation is made to Bursa Securities.

If you do not wish to participate in the Rights Issue with Warrants, you do not need to take any action.

You should read this AP in its entirety before making a decision.

2.2 Basis of determining and justification for the issue price of the Rights Shares

As announced on 17 February 2015, our Board had fixed the issue price of the Rights Shares at RM0.50 each after taking into consideration the following:-

(i) the funding requirements of our Group, details of which are set out in Section 4 of this AP;

(ii) the prevailing market conditions at the point of price-fixing;

(iii) the market price of KNM Shares;

(iv) the TERP of KNM Shares of RM0.68 per Share, calculated based on the 5-day VWAP of KNM Shares up to and including 16 February 2015 (being the Market Day immediately prior to the Price-Fixing Date), of RM0.71 per Share;

(v) the issue price of RM0.50 per Rights Share is at a discount of approximately 26.47% to the TERP of KNM Shares of RM0.68 per Share, which is deemed sufficiently attractive to encourage the subscription of the Rights Shares by the Entitled Shareholders and/or their renouncees; and

(vi) the par value of the KNM Shares of RM0.50 each.

2.3 Basis of determining and justification for the exercise price of the Warrants B

As announced on 17 February 2015, our Board had fixed the exercise price of the Warrants B at RM1.00 each after taking into consideration the following:-

(i) the par value of KNM Shares; and

(ii) the TERP of KNM Shares of RM0.68, calculated based on the 5-day VWAP of KNM Shares up to and including 16 February 2015 (being the Market Day immediately prior to the Price-Fixing Date), of RM0.71. The exercise price of RM1.00 per Warrant B is at a premium of approximately 47.06% to the TERP of the KNM Shares of RM0.68.

2.4 Ranking of the Rights Shares, Warrants B and new KNM Shares to be issued arising from the exercise of the Warrants B

The Rights Shares shall, upon allotment and issuance, rank *pari passu* in all respects with the existing KNM Shares, save and except that these Rights Shares will not be entitled to any dividends, rights, allotments and/or any other forms of distributions that may be declared, made or paid prior to the relevant date of allotment and issuance of the Rights Shares.

The Warrants B will be listed and quoted as a new class of securities. Warrants B, upon allotment and issuance, shall rank *pari passu* in all respects with the existing Warrants A, and shall be governed in accordance with the provisions of the Deed Poll B. Holders of the Warrants B will not be entitled to any voting right or participation in any form of distribution or offer of further securities in our Company until and unless such Warrants B are exercised into new KNM Shares.

The new KNM Shares to be issued upon exercise of Warrants B will, upon allotment and issuance, rank *pari passu* in all respects with the then existing KNM Shares, save and except that these new KNM Shares to be issued arising from the exercise of the Warrants B will not be entitled to any dividends, rights, allotments and/or other forms of distributions that may be declared, made or paid prior to the relevant date of allotment and issuance of the new KNM Shares.

2.5 Salient terms of Warrants B

The Warrants B will be separately traded from the existing KNM Shares and the Warrants A. The Warrants B will be issued in registered form and constituted by the Deed Poll B.

The salient terms of the Warrants B to be issued pursuant to the Rights Issue with Warrants as extracted from the Deed Poll B are as follows:-

Terms		Details
Issuer	:	KNM
Number of Warrants B	:	Up to 215,215,721 Warrants B to be issued in conjunction with the Rights Issue with Warrants to the Entitled Shareholders on the basis of 1 Warrant B for every 2 Rights Shares successfully subscribed. The number of Warrant B may be subject to adjustment under certain circumstances in accordance with the provisions of Deed Poll B.

Terms		Details
Form and Denomination	:	The Warrants B are immediately detachable from the Rights Shares upon issuance and shall be separately traded on Bursa Securities. The Warrants B shall be issued in registered form and constituted by Deed Poll B.
Issue Price	:	The Warrants B are to be issued for no additional payment to the Entitled Shareholders and/or renouncees who subscribe for the Rights Shares.
Exercise Price	:	The exercise price of the Warrants B has been fixed at RM1.00 per Warrant B, which shall be subject to adjustments under certain circumstances in accordance with the provisions of the Deed Poll B during the exercise period.
Exercise Rights	:	Each Warrant B entitles the registered holder to subscribe for 1 new KNM Share during the Exercise Period at the Exercise Price, subject to any adjustment in accordance with the provisions of Deed Poll B.
Exercise Period	:	The Warrants B may be exercised at any time within a period commencing on or including the date of issue of the Warrants B and ending at 5.00 p.m. on the Expiry Date. Any Warrants B which are not exercised during the Exercise Period shall thereafter lapse and cease to be valid for any purpose.
Expiry Date	:	A date falling immediately before the 5^{th} anniversary of the date of issue of the Warrants B, and if such day is not a market day, then on the preceding market day.
Mode of Exercise	:	The registered holder of the Warrants B is required to lodge an exercise form with the Company's registrar, duly completed, signed and stamped together with payment of the Exercise Price by way of bankers' draft or cashier's order drawn on a bank operating in Malaysia or money order or postal order issued by a post office in Malaysia.
Board Lot	:	For purposes of trading on Bursa Securities, a board lot of the Warrants B shall comprise 100 units of the Warrants B carrying the right to subscribe for 100 new KNM Shares or in such other denomination of a board lot as determined by Bursa Securities.
Rights of the Warrants B	:	The holders of the Warrants B are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in the Company until and unless such holder of the Warrants B are issued with new KNM Shares arising from their exercise of the Warrants B.
Ranking of the new KNM Shares to be issued upon exercise of the Warrants B	:	The new KNM Shares to be issued upon the exercise of the Warrants B 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 will not be entitled to any dividends, rights, allotments and/or 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 exercise of the Warrants B.
Adjustments to the Exercise Price and/or number of Warrants B	:	The Exercise Price and number of Warrants B in issue may be adjusted from time to time, in accordance with the provisions of Deed Poll B.
Rights of the holders of the Warrants B in the event of winding-up, liquidation, compromise and/or arrangement	:	Where a resolution has been passed by the 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 reconstruction of the Company or the amalgamation of the Company with one or more companies:-

Terms		Details
		(a) for the purpose of such a winding-up, compromise or arrangement (other than consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the holders of the Warrants B or some persons designated by them for such purposes by special resolution, shall be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the holders of the Warrants B; and (b) in any other case, every holder of the Warrants B shall be entitled upon and subject to the conditions set out in Deed Poll B, at any time within 6 weeks after the passing of such resolution for a members' voluntary winding-up of the Company or the granting of the court order approving the winding-up, compromise or arrangement (as the case may be), by irrevocable surrender of his Warrants B 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 such Warrants B to the extent specified in the relevant subscription forms and be entitled to receive out of the assets of the Company which would be available in liquidation as if he had on such date been the holder of the new KNM Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly. Subject to the above, if the Company is wound-up or an order has been granted for such compromise or arrangement, all exercise rights which have not been exercised within the 6 weeks of the passing of such resolution or the granting of the court order approving the winding-up, compromise or arrangement, shall lapse and the Warrants B will cease to be valid for any purpose.
Modifications	:	Save for manifest error or modification which is not materially prejudicial to the interest of the holder or relates purely to administrative matters and typographical errors, any modification, amendment, deletion or addition to the Deed Poll B shall require the approval of the holders of Warrants B sanctioned by special resolution and may be effected only by the Deed Poll B and expressed to be supplemental to the Deed Poll B and subject to the approval of the relevant authorities, if necessary.
Listing status	:	Approval-in-principle by Bursa Securities has been obtained vide its letter dated 21 November 2014 for the admission of the Warrants B to the Official List of Bursa Securities and for the listing of and quotation for the Warrants B and the new KNM Shares to be issued upon exercise of the Warrants B on the Main Market of Bursa Securities.
Transferability	:	The Warrants B are transferable in the manner provided under the SICDA and the Rules of Bursa Depository.
Deed Poll B	:	The Warrants B will be constituted under the Deed Poll B.
Governing Law	:	Laws and regulations of Malaysia.

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2.6 Other corporate proposals announced but pending completion

Save for the Corporate Exercises and the following, as at the date of this AP, there are no other outstanding corporate proposals which have been announced by our Company but pending completion:-

(a) On 28 November 2013, our Company had announced the proposed dissolution of the following inactive and/or dormant subsidiaries ("**Affected Subsidiaries**") either by way of voluntary winding up or de-registering/striking-off the Affected Subsidiaries from the respective register of companies with the relevant authorities ("**Proposed Dissolution**") to facilitate the streamlining of our Group's corporate structure and to improve administrative efficiency:-

Subsidiaries	Date/ Place of Incorporation	Paid Up Capital	% Shareholding	Status
KNM Eurasia Sdn Bhd	28 February 1992/ Malaysia	RM100,000	100	Completed
KNM Process Systems (Kazakhstan) Sdn Bhd	16 February 2005/ Malaysia	RM2	100	Completed
KNM Process Systems (Turkmenistan) Sdn Bhd	10 March 2005/ Malaysia	RM2	100	Completed
KNM Process Systems (Uzbekistan) Sdn Bhd	10 July 1995/ Malaysia	RM2	100	In progress
KNM-DP Harta Bina Sdn Bhd*	24 September 1994/ Malaysia	RM200,000	93	In progress
KNM China Pte Limited	22 January 2010/ Hong Kong	HKD100	100	Completed
Borsig Compression (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100	Completed
Borsig Valves (China) Pte Limited	29 January 2010/ Hong Kong	HKD100	100	Completed
KNM Engineering Services Private Limited	4 October 2006/ India	INR100,000	100	In progress
KNM Oil & Gas (B) Sdn Bhd	10 May 2005/ Brunei	BND100,000	100	Completed
KNM Services (Singapore) Pte Ltd	25 November 2009/ Singapore	USD1	100	Completed

Note:-

* *Both ILSE and Chew Fook Sin have a collective interest of 63.15% in Tegas Klasik. Tegas Klasik has an indirect interest of 7.14% in KNM-DP Harta Bina Sdn Bhd as well as a 1.70% direct interest in KNM as at 28 November 2013.*

The Proposed Dissolution is partially completed.

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(b) On 12 March 2015, our Company's wholly owned subsidiary, KNM Renewable Energy Sdn Bhd ("**KNMRE**"), had entered into a Share Purchase Agreement ("**SPA**") with FE Global/Asia Clean Energy Services Fund L.P. ("**FE GLOBAL**"), FEGACE Asia Sub-Fund, L.P. ("**FEGACE**"), and Global Clean Energy Corporation SPC ("**GCEC**") (collectively referred to as the "**Vendors**") for the acquisition of the Vendors' entire equity interest in ABL Bio-Fuels Limited ("**ABL**") and Asia Biofuels II Ltd. ("**ABL II**"), which collectively own a combined 72% equity interest in Impress Ethanol Co., Ltd ("**IEL**") and 49% equity interest in Impress Farming Co. Ltd ("**IFL**"), for a total consideration of USD24.0 million (equivalent to RM88.49 million based on the exchange rate of USD1:RM3.687). The consideration is to be satisfied as follows:-

   (i) cash payment of USD12.0 million (**"Initial Cash Consideration"**) within 3 market days upon satisfaction of the conditions precedent and completion of all the completion obligations per the SPA; and

   (ii) the issuance of new KNM Shares representing USD12.0 million (**"Consideration Shares"**) within 90 days from the date of payment of the Initial Cash Consideration. (The number and issue price of the Consideration Shares shall be determined at the time of settlement of the consideration and shall be priced at a 10% discount to the 5-day weighted average price for trades done on Bursa Securities prior to the issuance). In the event KNMRE fails to pay the Consideration Shares within the aforementioned period, KNMRE shall pay USD12.0 million in cash to the Vendors instead.

3 RATIONALE FOR THE RIGHTS ISSUE WITH WARRANTS

The Rights Issue with Warrants is undertaken to raise funds for the purposes as stated in Section 4 below.

In deciding on the Rights Issue with Warrants as compared to other forms of fund raising, our Board had considered amongst others, the various methods of fund-raising such as the issuance of private debt securities or bank borrowings as well as our Group's debt versus equity composition, gearing ratio and the finance costs arising from external borrowings. Our Board is of the opinion that the Rights Issue with Warrants is the most appropriate means of raising funds for the following reasons:-

(a) The Rights Issue with Warrants will enable our Group to raise funds without incurring additional finance costs and further increasing our Group's gearing level as compared to private debt securities or bank borrowings. Additional finance costs will cause further cash outflow in respect of interest servicing, thus increase the operating expenses of our Group and in turn impact our Group's profitability;

(b) Our Group will have better control and flexibility over our cash flows as compared to debt financing where we are obliged to service interest and principal on a fixed schedule; and

(c) The Rights Issue with Warrants will increase our Company's shareholders' funds and lower our gearing level which will provide greater financial flexibility in optimising the capital structure of our Company in future.

On 30 May 2014, our Company completed the Private Placement which raised proceeds of RM102.67 million. The Private Placement was undertaken by our Company to raise funds to finance our Group's working capital requirements and repayment of bank borrowings in order to reduce our indebtedness level, finance costs as well as gearing level.

Out of the proceeds raised from the Private Placement, RM55.0 million had been allocated for the repayment of bank borrowings. The remaining proceeds of RM47.67 million had been allocated for working capital purposes (RM45.53 million) and to defray expenses in relation to the Private Placement (RM2.14 million). The details of the repayment of bank borrowings and working capital purposes are as follows:

Type of borrowings	Purpose of the borrowings	Amount repaid RM'000
Term loan	• Purchase of raw materials (such as steel plates, base frames and chemicals); • Payment to sub-contractors and other professional services; and • Capital expenditure including purchase of plant and machinery	45,544
Revolving credit	• Working capital; • Payment to sub-contractors and other professional services; and • Purchase of raw materials (such as steel plates, base frames and chemicals)	9,456
Total		**55,000**

Description of working capital purposes	Amount utilised RM'000
Operating overheads mainly for factory and administrative fixed overheads, comprising amongst others, staff payroll, office rental and utilities	19,755
Payment for procurement of raw materials (steel plates, base frames and chemicals) and payment to sub-contractor for fabrication and site works, and other professional services	25,779
Total	**45,534**

The proceeds from the Private Placement utilised for repayment of bank borrowings were towards partial repayment of the said bank borrowings which will also be repaid partially from the proceeds of the Rights Issue with Warrants, whilst the proceeds from the Private Placement utilised for working capital purposes were for the day-to-day operations and our Group's on-going projects, amongst others, TAIF-NK, details of which are shown below.

Following the completion of the Private Placement and post completion of the Rights Issue with Warrants, the proforma gearing level of our Group will reduce from 0.46 times to 0.33 times under the Minimum Scenario or from 0.46 times to 0.25 times under the Maximum Scenario, based on our Group's audited financial statements as at 31 December 2013. Therefore, a lower gearing level will increase the financial flexibility of our Group to finance its operations by raising financing as and when the needs arise.

Under the Rights Issue with Warrants, an amount of up to RM155.00 million has been allocated for repayment of bank borrowings, the details of which are shown in Section 4 of this AP. Further, our Group has allocated up to RM55.02 million from the proceeds raised under the Rights Issue with Warrants for working capital purposes, which will be utilised to finance the day-to-day operating cost of our Group's on-going and future projects. Our Group has various on-going and future projects ranging in value from approximately RM1.0 million to approximately RM2.20 billion. A summary of our Group's major on-going and future projects (being contract value exceeding RM309.64 million) are, amongst others, as set out below:-

(i) Major on-going project

Awarded by	Nature of Project	Year of commencement	Expected completion
TAIF-NK	Supply of Sulphur Recovery Unit for the Heavy Residue Conversion Complex located at the Nizhnekamsk, Republic of Tatarstan, Russian Federation	April 2013	October 2015

The contract value for the abovementioned major on-going project amounted to RM309.64 million and the estimated capital and operating expenditure for the said on-going project is approximately RM108.37 million, being approximately 35% of the contract value.

In addition, our Group had, in March 2015, commenced the delivery of the equipment under the project awarded by Lukoil Uzbekistan Operating Company for the supply of technical documentation, equipment and services for the development of gas condensate fields in Uzbekistan, with contract value amounted to RM860.36 million.

Whilst it is noted that our Group only has 1 major on-going project, our Group is not solely reliant on 1 project as our Group has other on-going projects with contract value each between approximately RM1.0 million to approximately RM130.0 million. As described above, our Group has recently completed 1 major project and the PIC (as defined below) project is expected to come on stream in the 2nd half of 2015 as well as the project relating to Peterborough EnergyPark is expected to commence work in the 2nd quarter of 2015.

(ii) Major future projects

Project	Nature of project	Expected commencement date	Project duration
Pengerang Integrated Complex (**"PIC"**) (formerly referred to as **"RAPID"**)	To provide process equipment and related services in relation to the PIC project	2nd half of 2015	5 years
Peterborough EnergyPark	To develop a 80 mega watt waste to energy power plant in Peterborough, England in relation to the Peterborough EnergyPark (**"Peterborough"**)	2nd quarter of 2015	3 years

Our Group is still in the midst of finalising the contract value, terms and conditions of the PIC and Peterborough projects.

Further details of the abovementioned future projects are set out in Section 7.3 of this AP.

Our Group strives to secure more projects in the near future, which may be partly funded by debt.

(d) The Rights Issue with Warrants provides a platform for our Company to reward our shareholders and provides you with an opportunity to further increase your equity participation in our Company and ultimately, participate in the prospects and future growth of our Group by subscribing to the Rights Shares with Warrants B which will be offered at a discount to the TERP of KNM Shares, as disclosed in Section 2.2 of this AP;

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

(f) Warrants B, 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 Warrants B, depending on the future performance of KNM Shares; and

(g) Warrants B will enable KNM to raise further proceeds from the equity market as and when any of Warrants B are exercised which can be used for further repayments of bank borrowings and cater for working capital requirements of our Group.

4. UTILISATION OF PROCEEDS

Based on the issue price of RM0.50 per Rights Share, the Rights Issue with Warrants is expected to raise gross proceeds of up to RM161.57 million and RM215.22 million under the Minimum Scenario and Maximum Scenario, respectively.

The total gross proceeds raised shall be utilised in the manner as set out below:-

		Timeframe for utilisation (from the date of the listing of the Rights Shares)	Minimum Scenario (RM'000)	Maximum Scenario (RM'000)
(i)	Repayment of bank borrowings[(a)]	Within 6 months	116,300	155,000
(ii)	Working capital[(b)]	Within 6 months	40,974	55,016
(iii)	Defray expenses relating to the Rights Issue with Warrants[(c)]	Upon completion	4,300	5,200
	Total		**161,574**	**215,216**

Notes:

(a) As at the LPD, our Group's total bank borrowings are approximately RM788.18 million. Our Company proposes to repay approximately RM116.30 million and RM155.00 million under the Minimum Scenario and Maximum Scenario, respectively, of the outstanding bank borrowings of our Group, details of which are set out below:

			Amount to be repaid[(1)]	
Type of borrowings	***Purpose of borrowings***	***Maturity date***	***Minimum Scenario RM'000***	***Maximum Scenario RM'000***
Revolving credit	• *Working capital;* • *Payment to sub-contractors and other professional services; and* • *Purchase of raw materials (such as steel plates, base frames and chemicals)*	*May 2015 to December 2015*	*64,000*	*64,000*
Bills payable/term loan	• *Purchase of raw materials (such as steel plates, base frames and chemicals);* • *Payment to sub-contractors and other professional services; and* • *Capital expenditure including purchase of plant and machinery*	*May 2015 to December 2015*	*[(2)]52,300*	*[(2)]91,000*
Total			***116,300***	***155,000***

Notes:-

(1) The amount allocated for repayment of bank borrowings was determined based on bank borrowings with higher interest rate and will be due for repayment in 2015.

(2) The breakdown of amount to be repaid for the bills payable and term loan cannot be determined at this juncture as our Company is in the midst of negotiation with the respective financial institutions.

Total interest savings arising from the repayment of outstanding bank borrowings is approximately RM9.26 million per annum and RM11.75 million per annum, computed based on weighted average interest rate of 7.96% per annum and 7.58% per annum for our Group under the Minimum Scenario and Maximum Scenario, respectively.

(b) The proceeds earmarked for working capital will be utilised to finance the day-to-day operating cost of our Group's on-going and future projects. The breakdown of the categories of working capital requirements for each project and the utilisation amount by each project cannot be determined at this juncture, as the amount will depend on the operating requirements of the projects at the time of the utilisation.

Our Company's major on-going and future projects are disclosed in Section 3 of this AP.

(c) The estimated expenses relating to the Corporate Exercises comprising estimated professional fees of approximately RM1.25 million and underwriting fees as well as other related expenses pursuant to the Rights Issue with Warrants of up to RM3.95 million. The expenses relating to underwriting fees will vary depending on the number of Rights Shares with Warrants B to be issued. If the actual expenses are higher than budgeted, the deficit will be funded out of the proceeds allocated for meeting working capital requirements. In the event that the actual expenses are lower than budgeted, the surplus will be allocated for meeting working capital requirements.

Any variation in the actual proceeds raised from the Rights Issue with Warrants and the consequential changes to the actual utilisation of proceeds will be adjusted to or from the amount allocated for working capital.

Pending utilisation of the proceeds from the Rights Issue with Warrants for the abovementioned purposes, the proceeds will be placed in deposits with financial institutions or short-term money market instruments. The interest income derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used as additional working capital of our Group.

The Warrants B will not raise any immediate proceeds as they will be issued for no additional payment to the Entitled Shareholders and/or renouncees who subscribed for their respective entitlements under the Rights Issue with Warrants. The gross proceeds to be raised from the exercise of Warrants B are dependent on the total number of Warrants B exercised during the tenure of Warrants B as well as the exercise price of Warrants B. The maximum gross proceeds that are expected to be raised upon the full exercise of Warrants B based on the exercise price of RM1.00 per Warrant B is up to approximately RM215.22 million. Our Company intends to utilise the proceeds arising from the exercise of Warrants B for repayment of borrowings and the working capital requirements of our Group in the future.

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5. SHAREHOLDER'S UNDERTAKING AND UNDERWRITING ARRANGEMENT

The Rights Issue with Warrants will be implemented on a full subscription basis.

5.1 Shareholders' undertaking

KNM had procured the following written irrevocable undertakings to subscribe or procure subscription in full for their respective entitlements to the Rights Shares under the Rights Issue with Warrants as at the Entitlement Date:-

(i) undertakings dated 13 November 2014 from the Undertaking Shareholders;

(ii) additional undertaking dated 27 November 2014 from Aveda whereby Aveda had further provided a written irrevocable undertaking to subscribe for the corresponding additional Rights Shares entitlement together with the corresponding Warrants B entitlement as a result of the transfer by McDermott on 27 November 2014 of its 28 million KNM Shares to Aveda; and

(iii) additional undertakings dated 11 March 2015 from Inter Merger and Tegas Klasik whereby Inter Merger and Tegas Klasik had further provided written irrevocable undertakings to subscribe in full for their respective entitlements to the Rights Shares together with the corresponding Warrants B entitlement as a result of the transfer by Tegas Klasik on 11 March 2015 of its 8 million KNM Shares to Inter Merger.

A summary of the Undertakings are set out below:-

			Minimum Scenario			Maximum Scenario		
	Shareholdings as at the LPD		[1]Rights Shares to be subscribed pursuant to the undertaking		No. of Warrants B entitlement	[2]Rights Shares to be subscribed pursuant to the undertaking		No. of Warrants B entitlement
Undertaking Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**		**No. of Shares**	**%**	
Inter Merger[4]	[3]275,697,089	17.06	55,139,418	17.06	27,569,709	77,627,469	18.03	38,813,735
ILSE	22,069,641	1.37	4,413,928	1.37	2,206,964	6,889,839	1.60	3,444,920
GSL	7,296,250	0.45	1,459,250	0.45	729,625	2,376,020	0.55	1,188,010
Tegas Klasik[4]	16,941,090	1.05	3,388,218	1.05	1,694,109	4,584,291	1.07	2,292,145
McDermott[5]	-	-	-	-	-	550,000	0.13	275,000
Aveda[5]	64,250,000	3.98	12,850,000	3.98	6,425,000	12,850,000	2.99	6,425,000
Total	**386,254,070**	**23.91**	**77,250,814**	**23.91**	**38,625,407**	**104,877,619**	**24.37**	**52,438,810**

Notes:

(1) Based on 323,148,875 Rights Shares available for subscription under the Minimum Scenario over the share capital of 1,615,744,377 KNM Shares as at the LPD (excluding treasury shares).

(2) Based on 430,431,442 Rights Shares available for subscription under the Maximum Scenario (assuming ILSE and GSL exercise all of their outstanding Warrants A and ESOS options prior to implementation of the Rights Issue with Warrants, and Inter Merger, Tegas Klasik and McDermott exercise all of their outstanding Warrants A prior to implementation of the Rights Issue with Warrants) over the share capital of 2,152,157,211 KNM Shares as at the LPD.

(3) Includes 70,000,000 KNM Shares pledged to Credit Suisse International by Inter Merger in relation to a financing transaction.

(4) *Tegas Klasik had on 11 March 2015 transferred its 8 million KNM Shares to Inter Merger. Pursuant to the Undertakings, Inter Merger and Tegas Klasik will subscribe for their Rights Shares entitlement together with the corresponding Warrants B entitlement as a result of the aforementioned transfer from Tegas Klasik to Inter Merger.*

(5) *McDermott had on 27 November 2014 transferred its 28 million KNM Shares to Aveda. Pursuant to the Undertakings, Aveda will subscribe for the corresponding additional Rights Shares entitlement together with the corresponding Warrants B entitlement as a result of the aforementioned transfer from McDermott to Aveda.*

The Undertaking Shareholders have confirmed and Affin Hwang IB has verified to the extent possible, that the Undertaking Shareholders have sufficient financial resources to subscribe in full for their respective entitlements for the Rights Shares as specified in the Undertakings.

Pursuant to the Undertakings, the Undertaking Shareholders have undertaken to observe and comply at all times with the provisions of the Code.

As the Rights Issue with Warrants is to be undertaken on a full subscription basis, the Underwritten Portion will be fully underwritten.

5.2 Underwriting arrangements and salient terms of the Underwriting Agreement

On 13 March 2015, our Company had entered into the Underwriting Agreement with the Underwriters to underwrite up to 325,553,823 Rights Shares for which no undertaking has been obtained ("**Underwritten Shares**"), representing approximately 75.63% of the Rights Shares under the Maximum Scenario at an underwriting commission of 1.50% of the total value of the Underwritten Shares based on the issue price of RM0.50 per Rights Share, subject to the terms and conditions of the Underwriting Agreement.

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

Underwriter	Agreed Proportion of Underwritten Shares	Maximum number of Underwritten Shares
Affin Hwang IB	75%	244,165,367
MIDF Amanah Investment Bank Berhad	25%	81,388,456
Total	**100%**	**325,553,823**

The underwriting commission for the Rights Shares and all incidental costs in relation to the Underwriting Agreement will be fully borne by our Company.

6. RISK FACTORS

You and/or your renouncee(s) (if applicable) should carefully consider the following risk factors (which may not be exhaustive) which may have an impact on the future performance of our Group, in addition to other information contained elsewhere in this AP, before subscribing for or investing in the Rights Issue with Warrants.

6.1 Risks relating to the Rights Issue with Warrants

6.1.1 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 financial performance and future profitability, and the outlook of the oil and gas, chemical, petrochemical, renewable energy and power generations industries which our Group support and operate in. In view of this, there can be no assurance that our Shares will trade at or above the issue price of RM0.50 per Rights Share or the TERP of RM0.68 upon or subsequent to the listing of the Rights Shares on the Main Market of Bursa Securities.

The value of the Warrants B is dependent on, amongst others, the market price of our Shares, exercise price for Warrants B, the remaining tenure of the Warrants B and the volatility of KNM Shares. In view of this, there can be no assurance that the Warrants B will be "in-the-money" during the tenure of the Warrants B. There can also be no assurance that an active market for the Warrants B will develop upon or subsequent to the listing of the Warrants B on the Main Market of Bursa Securities, or if developed, that such market can be sustained. Furthermore, should the outstanding Warrants B expire at the end of its tenure, it will cease thereafter to be valid for any purposes and hence, will no longer have any value.

Accordingly, there is no assurance that the market price of the Rights Shares and Warrants B will be at a level that meets the specific investment objectives or targets of any subscriber of the Rights Shares and Warrants B.

6.1.2 No prior market for Warrants B

There can be no assurance that there will be an active market for the Warrants B upon or subsequent to their listing on the Main Market of Bursa Securities or, if developed, that such a market is sustainable or adequately liquid during the tenure of the Warrants B.

The market price of the Warrants B, like all listed securities traded on Bursa Securities, is subject to fluctuations and will be influenced by, *inter-alia*, trades in substantial amount of the Warrants B on the Main Market of Bursa Securities in the future, the market price and volatility of KNM Shares, announcements relating to the business of our Group, the financial performance of our Group, and exercise period of the Warrant B.

In addition to the fundamentals of KNM, the future price performance of the Warrants B will also depend on various external factors such as the economic and political conditions of the country, sentiments and liquidity in the local stock market as well as the performance of regional and world bourses.

On the other hand, the market price of KNM Shares will be influenced by, *inter-alia,* the prevailing market sentiments, volatility of the stock market of the country, operating results of our Group and prospects of the industries in which our Group operates.

There can be no assurance that the exercise price of the Warrants B will be less than the prevailing market price of KNM Shares during the tenure of the Warrants B.

6.1.3 Delay in or abortion of the Rights Issue with Warrants

The Rights Issue with Warrants is exposed to risk that it may be aborted or delayed due to, inter-alia, the following events:-

(a) the Undertaking Shareholders for whatever reason, being unable to fulfil the obligation under the Undertakings; or

(b) force majeure events or circumstances such as natural disasters, health epidemics, acts of government, terrorism, strikes, national disorders, and states of emergency, which are beyond the control of our Company and advisers, arising prior to the implementation of the Rights Issue with Warrants; or

(c) the Managing Underwriter and/or Co-Underwriter exercising their rights under the Underwriting Agreement to terminate their commitments and discharge themselves from their obligations for reasons, 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 with Warrants.

In the event the Rights Issue with Warrants is aborted/terminated, all monies received in respect of all subscription/application for any Rights Shares with Warrants will be refunded to the subscribing Entitled Shareholders and/or their renouncee(s), if applicable, without interest. Pursuant to Section 243 of the CMSA, if any money received from the Entitled Shareholders and/or their renouncee(s) are not repaid within fourteen (14) days after our Company become liable to repay, our Company will repay such money with interest at the rate of 10% or such other rates as may be prescribed by the SC in accordance with Section 243(2) of the CMSA.

In the event the Rights Issue with Warrants is aborted/terminated, and the Rights Shares have been allotted to the shareholders, a return of monies to all holders of Rights Shares could only be achieved by way of cancellation of share capital as provided under the Act and its related rules. Such cancellation requires the sanction of our shareholders by special resolution in a general meeting and the confirmation of the High Court of Malaya. There can be no assurance that such monies can be returned within a short period of time or at all in such circumstances.

Notwithstanding the above, we will exercise our best endeavor to ensure that the Rights Issue with Warrants 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 with Warrants.

6.1.4 Capital market risk

The prices of our Shares as traded on Bursa Securities may fluctuate, like all other listed securities. There is a variety of factors that could cause the prices of KNM Shares to fluctuate, amongst others, trades of substantial amounts of KNM Shares on Bursa Securities, announcement of material developments of our Group's business and fluctuations in our Group's operating results and revenue levels.

In addition to the fundamentals of our Group that could cause the prices of KNM Shares to fluctuate, the future price performance of KNM Shares will also depend upon various external factors such as general economic, political and industry conditions, the performance of regional and world bourses as well as sentiments and liquidity in the local stock market. These factors invariably contribute to the volatility of trading volumes on Bursa Securities, thus adding risk to the market price of our Shares and Warrants B.

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.

6.1.5 Potential dilution

The Entitled Shareholders who do not or are not able to accept their Provisional Rights Shares with Warrants B will have their proportionate ownership and voting interest in our Company reduced, and the percentage of our enlarged issued and paid-up share capital represented by their shareholdings in our Company will also be reduced accordingly.

6.1.6 Forward-looking statements

Certain statements in this AP are based on historical data, which may not be reflective of the future results and are subject to uncertainties and contingencies.

All forward-looking statements are based on assumptions and estimates made by our management and although believed to be reasonable at that time, are subject to known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results to differ materially from the future results, performance or achievements expressed or implied in such forward looking statements. There can be no assurance that any of these forward looking statements can be realised.

In view of these and other uncertainties, the inclusion of a forward looking statement in this AP should not be regarded as a representation or warranty by our Company or any other person on the achievability of our future plans and objectives.

6.2 Risks relating to our Group

6.2.1 Business and operational risks

Our Group is principally involved in providing services to the oil and gas, chemical, petrochemical, renewable energy and power generation industries. Our Group is not insulated from the general business risks 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 projects or cost overruns which could in turn adversely affect the business, operations and financial performance and consequently our Group's profitability.

6.2.2 Industry competition

Our Group is a manufacturer of process equipment and processing units for amongst others, the oil and gas, petrochemicals, renewable energy, chemicals and power industries. The estimated revenue segmentation by industry based on the latest quarterly results of our Group for FYE 31 December 2014 are as set out below:-

Industry	**% of revenue**
Oil and gas	32.16
Petrochemicals	38.92
Renewable energy	4.73
Others[(1)]	24.19
Total	**100.0**

Note:

(1) Others include, amongst others, minerals, power generation, chemicals and pharmaceutical, manufacturing and engineering.

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The oil and gas, petrochemical, renewable energy, chemical, and power generation businesses in general are characterised by intense competition and competitive factors that vary by project and geographical region. Our Group faces competition from local and overseas manufacturers, especially internationally recognised manufacturers of process equipment and processing units. There is competition amongst the manufacturers of process equipment and processing units 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.

Based on the latest quarterly results of our Group for FYE 31 December 2014, we estimated that approximately more than 32.0% of our revenue is derived from the oil and gas industry. As such, although we have diversified away from the oil and gas industry, the business arising from the oil and gas industry is still one of the major contributors 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 competitive edge in the industry as well as its existing market share in the future. There is no assurance that competition from existing competitors will not have a material adverse impact on our Group's operations and financial position.

6.2.3 Project risks

Due to the nature of our business, our Group's contracts with clients are entered into on a project basis. These projects are subjected to the following risk factors:

(i) Most of our Group's projects are contracted on a fixed-price basis, of which the price is determined at bid time, based on estimates and subject to specific terms and conditions. Typically, our Group estimates project costs through market survey, benchmarking with other comparable projects and adjusting for specific considerations of the project. Our Group also carries out internal costing and budgeting estimates of raw material, sub-contracting costs and overheads based on the indicative pricings given by our suppliers and subcontractors, as well as our own costs for our manpower and overheads. In view that costs remain an estimate until full payment and completion of the project, there is the possibility that our Group may underestimate project costs in tendering or bidding for a project. Further, in the event of under-estimation and/or over-estimation of costs during the budgeting/costing stage due to unforeseen circumstances, such as fluctuation in prices of raw materials and sub-contractors services, additional costs which are not previously factored into the costing may arise. In the event of under-estimation of costs, our Group may incur cost overruns which will reduce profits. While reasonable care is taken to address the possibility of costs overruns, there is no assurance that unforeseeable circumstances as mentioned above in our projects will not have material impact on our financial performance. Based on the latest quarterly results of our Group for FYE 31 December 2014, our Group had provided for foreseeable losses of approximately RM0.48 million for the on-going projects;

(ii) Delay in the completion of the project. The completion of our projects could be delayed depending on many external factors, including, amongst others, change in project schedule or technical specifications by customers, late arrival of shipment of materials by supplier, late delivery of our products by shipping company, suppliers fail to supply the raw material as contracted, fire, energy crisis, etc. Based on the latest quarterly results of our Group for FYE 31 December 2014, our Group has net exposure of approximately RM2.29 million in claims for liquidated and ascertained damages by our clients due to delay in project completion; and

(iii) Failure to implement projects that fully satisfy the requirements of the contracts that may lead to claims being made against our Group. For example, in the event the equipment does not meet the performance specification of the product, our customers may make claims against our Group. As at the LPD, our Group had not experienced any significant claims from our customers which would have materially reduced our profits and incurred losses.

6.2.4 Changes in crude oil prices

Crude petroleum is a globally traded commodity that is subject to price fluctuations which is unpredictable and may fluctuate in response to relatively minor changes in the supply and demand conditions for oil and gas, market uncertainty and actions by major oil exporting countries. Geopolitical factors, economic conditions, unforeseen supply disruptions and political instability may also influence the market price of crude petroleum.

The global Brent crude oil prices had seen significant drop from USD115.06 per barrel on 19 June 2014 to a low of USD49.16 per barrel on 20 January 2015. However, the Brent crude oil price has since recovered to USD50.16 per barrel on 21 January 2015 and as at the LPD, the Brent crude oil price stood at USD62.58 per barrel. *(Source: Brent Oil Historical Data, http://www.investing.com/commodities/brent-oil-historical-data)*

The recent decline in global oil prices has been attributed to the confluence of improved supply conditions (increased United States shale oil output, fewer than expected disruptions to oil supply as a result of less geopolitical problems and expectations of recovery in output from Libya and Iran), weaker demand and the strength of the USD. However, the aforementioned recent fall in global oil prices is not expected to have a direct material adverse impact on our Group's operational and financial performance as our Group's customers are mainly downstream onshore operators of chemical and petrochemical plants, refineries and power generation facilities, whereby the crude oil or the crude oil derived raw material are the feedstock to the refinery and petrochemical/chemical plants. As such, the feedstock to our customers may be cheaper due to the lower crude oil price.

Nevertheless, if the trend continues (the crude oil price is sustained at the current low levels for a significant period of time), this may have an adverse effect on our Group in the long run, as our Group's customers may defer capital investment decision related to crude oil refinery projects, until the crude oil price and market sentiment stabilised. In the event our customers defer their investment decision, this may result in lesser future projects available in market for our Group to secure.

6.2.5 Political and economic considerations

Our Group's financial and business prospects are subject to the political, economic and regulatory conditions in Malaysia and/or other countries in which our Group has presence, amongst others, Canada, Germany, Italy, Thailand and China. 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, operations and prospects of our Group. These political, economic and regulatory uncertainties include, amongst others, 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. As at the LPD, our Group has not been materially affected by any of the abovementioned factors.

However, 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.

6.2.6 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. Any adverse movement in foreign currency may have an adverse effect on the financial performance of our Group and 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.

Although our Group uses "natural hedge" by entering into contracts such that revenue earned and purchases made will be denominated in the same foreign currency as well as through financial instruments such as derivatives, there is no assurance that the foreign exchange and transaction currency risks will not have a material adverse impact on our Group's operations and financial position.

6.2.7 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.

For the past 2 years and up to the LPD, there has been no incidence of inadequate insurance coverage.

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6.2.8 Country risks from foreign ventures/investments

We are exposed to risks arising from our 15 manufacturing facilities and 3 engineering offices located in 9 countries, comprising Canada, Germany, Italy, Indonesia, Kingdom of Saudi Arabia, Malaysia, People Republic of China, USA and United Arab Emirates. Approximately 79% of our Group's revenue for the financial year ended 31 December 2014 was derived from overseas operations and over 97% of our Group's revenue for the financial year ended 31 December 2014 was derived from the export markets. We are exposed to risks arising from our overseas manufacturing facilities and offices given the different operating conditions and regulatory environment in other countries such as Canada, Germany, Italy, Indonesia, Kingdom of Saudi Arabia, Malaysia, People Republic of China, USA and United Arab Emirates, amongst others, the general economy, political stability, legal and tax legislation, credit environment and foreign exchange rules. If we fail to fully understand the local environment of our overseas ventures, it may cause us to make decisions which may lead to a negative outcome.

6.2.9 Fire, energy crisis and other emergency risks

Our Group's manufacturing plants have to some extent flammable items which in the event of a fire breakout, our Group's operation may be affected to the extent of the warehouse or specific area of operations. To mitigate this risk, our Group maintains a strict safety policy in storing all flammable items in our manufacturing plants and employs 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 one of the 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. disruption in electricity supply, 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.

For the past 2 years and up to the LPD, our Group has not experienced any incidences relating to fire, energy and other emergency risks, such as riot and labour strikes in our factories.

6.2.10 Management continuity

Being in a highly specialised industry, the continued growth and success of our Group depends, to a certain extent, upon the abilities and continued efforts of our Board, senior management as well as skilled personnel.

Presently our Group is led by an experienced Board and possesses a strong team of qualified senior management and skilled personnel with extensive knowledge and experience in their respective fields. This is well demonstrated by our Group's established track record in serving multinational companies in the oil and gas, chemical, petrochemical, renewable energy and power generation industries.

The loss of any of our key personnel may have an adverse effect on our business, financial condition, results of operations and prospects. Therefore, efforts are made to attract, groom and retain middle management for succession planning to ensure smooth transition in management should any changes occur. Our Group motivates employees by awarding bonuses and vesting of ESOS options based on each employee's performance to reward and retain these personnel.

6.2.11 Credit risks

Our Group's exposure to credit risk arises mainly from external counter-party risk on onerous project contracts and on monetary financial assets. Credit risks are minimised and monitored by limiting our Group's association to business partners with high creditworthiness and rating. Trade receivables are monitored on an on-going basis via our Group's management reporting procedures.

6.2.12 Licenses and registrations

Our Group has obtained certain licences, registrations and permits from various authorities and agencies. However, some of these licences, registrations and permits are subject to periodic review and renewal by the relevant authorities and agencies. In addition, the standards of compliance required may from time to time be subject to changes. Non-renewal or revocation of our Group's licences, registrations and permits may have an adverse impact on our operations, business and reputation, hence affecting our financial performance

Although our Group has not experienced any revocation and/or non-renewal of the requisite licences, registrations and permits, there is no assurance that the existing licences, registrations and permits will be renewed and obtained in a timely manner.

6.2.13 Risk relating to our Group's material litigation, claim or arbitration

We may be involved from time to time in disputes with various parties involved in our business such as main/subcontractors, suppliers, purchasers as well as our customers. These disputes may lead to legal and other proceedings, and may cause us to suffer additional costs and delays.

As at the LPD, save as disclosed in Section 4 in Appendix VII of this AP, neither our Company nor our subsidiaries is engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which have or may have material effects on our business or financial position, and our Directors are unaware of any proceedings threatened or of any fact likely to give rise to any proceedings, which may materially affect our financial position or business.

However, there can be no assurance that there will be no claims or legal proceedings in the future that could adversely affect the operations and profitability of our Group.

7. INDUSTRY OVERVIEW AND PROSPECTS OF OUR GROUP

7.1 Overview and outlook of the economy

(a) Overview and outlook of the global economy

According to the International Monetary Fund's ("**IMF**") latest World Economy Outlook (WEO) update, global growth is forecast to rise moderately in 2015 and 2016, from 3.3% in 2014 to 3.5% in 2015 and 3.7% in 2016, revised down by 0.3% for both years relative to the October 2014 WEO.

Recent developments, which are affecting different countries in different ways, have shaped the global economy since the release of the October WEO. New factors supporting growth, such as lower oil prices and depreciation of euro and yen are more than offset by persistent negative forces, including the lingering legacies of the crisis and weak investment as many countries adjust to lower potential growth.

In advanced economies, growth is projected to rise to 2.4% in both 2015 and 2016. For 2015, the United States economic growth has been revised up to 3.6%, largely due to more robust private domestic demand. Cheaper oil is boosting real incomes and consumer sentiment, and there is continued support from accommodative monetary policy, despite the projected gradual rise in interest rates. In contrast, weaker investment prospects weigh on the euro area growth outlook, which has been revised down to 1.2%, despite the support from lower oil prices, further monetary policy easing, a more neutral fiscal policy stance, and the recent euro depreciation. In Japan, where the economy fell into technical recession in the third quarter of 2014, growth has been revised down to 0.6%. Policy responses, together with the oil price boost and yen depreciation, are expected to strengthen growth in 2015 and 2016.

In emerging market and developing economies, growth is projected to remain broadly stable at 4.3% in 2015 and to increase to 4.7% in 2016 - a weaker pace than forecast in the October 2014 WEO.

(Source: World Economic Outlook Update January 2015 – International Monetary Fund, 20 January 2015)

(b) Overview and outlook of the Malaysian economy

The Malaysian economy recorded a stronger growth of 6.0% in 2014 (2013: 4.7%). Growth was driven by the continued strength in private domestic demand, and further lifted by the improvement in external trade performance. In particular, net exports turned around to contribute positively to growth in 2014 after seven consecutive years of negative contribution, as Malaysia's exports benefitted from the recovery in the advanced economies and continued demand from the region. This was reflected in a broad-based improvement in demand across markets and products, including the electrical and electronics products. As the growth of real exports of goods and services outpaced the growth of imports, net exports recorded a strong growth of 19.7% in 2014 (2013: -12.6%) and contributed 1.4 percentage points to the overall gross domestic product ("**GDP**") growth.

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Domestic demand remained as the main anchor for growth, albeit at a more moderate pace of expansion, led by private sector activity. Private consumption was supported by favourable income growth and stable labour market conditions. The targeted Government transfers to the low- and middle-income groups provided additional support to private consumption despite the higher inflation during the year. Private investment continued to grow at a double-digit rate, driven by the manufacturing and services sectors. These sectors benefitted from the improvement in the external environment as well as the sustained domestic consumption. In line with the Government's commitment to fiscal consolidation, total public sector expenditure contributed only marginally to growth during the year. The cost cutting initiatives by the Government to reduce discretionary spending that were announced at the end of 2013, particularly on travel, food and beverages as well as rentals, had partly led to the moderation in public consumption growth in 2014. Public investment, meanwhile, contracted following the lower capital spending by both the Federal Government and the public enterprises. The latter was due mainly to the completion and near-completion of some major projects during the year.

On the supply side, all economic sectors recorded higher growth in 2014. The services sector remained the largest contributor to growth, underpinned largely by sub-sectors catering to domestic demand. The stronger performance of the export-oriented industries and the expansion in domestic-oriented industries contributed to the strong growth in the manufacturing sector during the year. The construction sector continued to expand at a double-digit rate, owing mainly to stronger growth in both the residential and non-residential sub-sectors, with further support from the infrastructure projects under the civil-engineering sub-sector.

Despite a challenging external environment, the Malaysian economy is expected to register steady growth of 4.5% - 5.5% in 2015, supported mainly by sustained expansion in domestic demand amid strong domestic fundamentals and a resilient export sector. Domestic demand will continue to anchor growth in 2015, driven by private sector spending. After registering five consecutive years of above-average growth rates, private consumption is expected to grow by 6.0% in 2015. While the implementation of the Goods and Services Tax (**"GST"**) in April 2015 and lower earnings in the commodity-related sectors are expected to affect spending, this will, however, be partially offset by higher household disposable incomes from lower fuel prices, the favourable labour market conditions and the Government measures to assist low- and middle-income households.

(Source: Bank Negara Malaysia Annual Report 2014, Bank Negara Malaysia)

7.2 Overview and outlook of the industry

(a) Overview and outlook of the global energy sector

Over the period to 2035, the investment required each year to supply the world's energy needs rises steadily towards USD2000 billion, while annual spending on energy efficiency increases to USD550 billion. This amounts to a cumulative global investment bill of more than USD 48 trillion, consisting of around USD40 trillion in energy supply and the remainder in energy efficiency.

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The main components of energy supply investment are the USD23 trillion in fossil fuel extraction, transport and oil refining; almost USD10 trillion in power generation, of which low-carbon technologies – renewables (USD6 trillion) and nuclear (USD1 trillion) – account for almost three-quarters, and a further USD7 trillion in transmission and distribution. Nearly two-thirds of this investment takes place in emerging economies, with the focus for investment moving beyond China to other parts of Asia, Africa and Latin America; but ageing infrastructure and climate policies create large requirements also across the Organisation for Economic Co-operation and Development (**"OECD"**). Less than half of the USD40 trillion investment in energy supply goes to meet growth in demand, the larger share is required to offset declining production from existing oil and gas fields and to replace power plants and other assets that reach the end of their productive life.

Annual capital expenditure on oil, gas and coal extraction, transportation and on oil refining has more than doubled in real terms since 2000 and surpassed USD950 billion in 2013. The epicentre of increased oil and gas investment activity has been North America, with the rapid expansion of shale gas and tight oil output, but investment in other parts of the world has also been on an upward trend.

Renewable energy technologies, a critical element of the low-carbon pillar of global energy supply, are rapidly gaining ground, helped by global subsidies amounting to USD120 billion in 2013. With rapid cost reductions and continued support, renewables account for almost half of the increase in total electricity generation to 2040, while use of biofuels more than triples to 4.6 million barrels per day and the use of renewables for heat more than doubles. The share of renewables in power generation increases most in OECD countries, reaching 37%, and their growth is equivalent to the entire net increase in OECD electricity supply. However, generation from renewables grows more than twice as much in non-OECD countries, led by China, India, Latin America and Africa. Globally, wind power accounts for the largest share of growth in renewables-based generation (34%), followed by hydropower (30%) and solar technologies (18%). As the share of wind and solar photovoltaics in the world's power mix quadruples, their integration both from a technical and market perspective becomes more challenging, with wind reaching 20% of total electricity generation in the European Union and solar photovoltaics accounting for 37% of summer peak demand in Japan.

(Source: World Energy Investment Outlook 2014)

Globally, renewable electricity generation is now on par with that of natural gas, which remained relatively stable in 2013. Investment in new renewable power capacity topped USD 250 billion globally in 2013 and is likely to remain at high levels.

(Source: Medium-Term Renewable Energy Market Report 2014, International Energy Agency)

Global biofuel production falls primarily into three categories; ethanol, biodiesel, and hydrotreated vegetable oil. Of the 116 billion litres of biofuel produced globally in 2013, 75% were ethanol.

(Source: Renewables 2014 Global Status Report, By the Renewable Energy Policy Network for the 21st Century, REN21).

The United States of America led the world in ethanol production, accounting for nearly 60% of global output in 2014. Brazil was responsible for about 25% of world production, while the European Union followed with 6%. China and Canada were other leading producers.

(Source: 2015, Ethanol Industry Outlook, Renewable Fuels Association, United States of America)

Global biofuel production is seen reaching 139 billion litres in 2020. World ethanol output is forecast to reach 104 billion litres in 2020.

(Source: Medium-Term Renewable Energy Market Report 2014, International Energy Agency)

Notwithstanding the above, according to recent developments, the demand for oil in 2015 will grow far slower than previously forecast as global economies remain weak, according to the International Energy Agency (**"IEA"**), and prices may extend their sharp fall so long as Organization of the Petroleum Exporting Countries (**"OPEC"**) shows no sign of countering a supply surge.

After years of relatively stable, record-high prices, the oil market collapsed by roughly 60% from its June 2014 high above USD 115 per barrel for front-month ICE Brent to below USD 46 per barrel in January 2015. IEA projects the Brent crude oil price averaged at roughly USD 55 per barrel for 2015, ramping up gradually to USD 73 per barrel in 2020. These prices suggest that participants expect the market to recover somewhat as it rebalances following cuts in upstream investment. Despite that improvement, the market does not seem to be expecting prices to revisit earlier highs any time soon. Not only have prompt prices collapsed, even price expectations for the back end of the curve have been significantly downgraded.

Projections of oil-demand growth have been revised downwards, rather than upwards, since the price drop, in line with IMF forecasts of underlying economic growth; demand growth is expected to slow markedly, to 1.1 million barrels per day (**"mb/d"**) per annum over the next six years, from the "normal" pace of expansion exhibited prior to the financial crisis of 2008-2009.

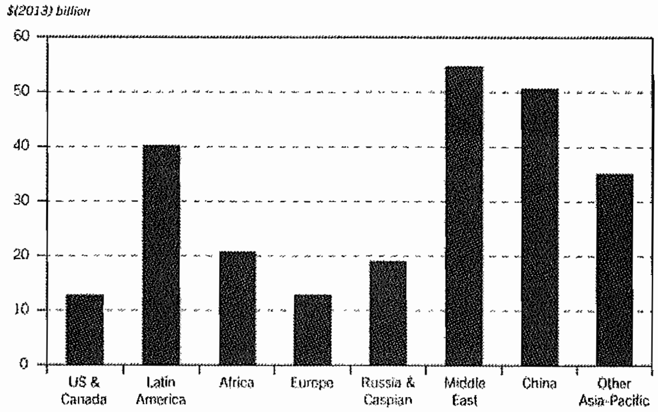
Supply-capacity growth looks significantly lower than expected in the years to 2020 as lower prices slash investments. Despite a plunge in oil prices of more than 50%, however, global capacity is still expected to increase to 103.2 mb/d over the next six years, a 5.2 mb/d gain. Two thirds of this growth will come from non-OPEC producers. Despite OPEC's stated policy of defending market share, its own crude capacity is only projected to gain 1.2 mb/d, an average of 200 thousand barrels per day per annum.

(Source: Medium-Term Oil Market Report 2015, 10 February 2015, International Energy Agency)

(b) Overview and outlook of the global petrochemical sector

The largest part of the refining sector investments related to on-going projects and those that are judged to be on-stream before the end of 2019 is expected to take place in the Asia-Pacific. This totals almost USD90 billion. Out of this, China alone accounts for some USD50 billion. This amount is, however, slightly lower than the one projected last year for the period covering 2013–2018, which reflects the region's lower capacity additions compared to last year. Contrary to China, and the Asia-Pacific as a whole, committed Middle East refining sector investments are broadly comparable to those estimated last year. It makes the Middle East the region with the single largest downstream investments, out of the eight major regions presented in figure below.

Cost of refinery projects by region, 2014–2019



(Source: World Oil Outlook 2014, Organisation of the Petroleum Exporting Countries)

Meanwhile the global refining industry continues to reinvent itself. Expansions continue, with capacity set to rise by 6.4 mb/d by 2020 to 102.1 mb/d, slightly more slowly than previously forecast, as China, in particular, scales back some projects in the face of weaker-than-expected domestic demand growth. Most of the capacity growth takes place east of Suez, with emerging Asia (including China) in the lead, followed by the Middle East.

(Source: Medium-Term Oil Market Report 2015, 10 February 2015, International Energy Agency)

(c) Overview and outlook of the Malaysian energy sector

Petroliam Nasional Bhd ("**Petronas**") will award more contracts in the development of its Pengerang Integrated Complex ("**PIC**") in Johor over the next two years, PIC currently has RM89 billion worth of projects in the pipeline, accounting for 33% of investment costs of all Petronas's entry point projects and nearly 70% of those on the oil, gas and energy sector. Ultimate investment over time could be as high as RM170 billion, including the committed RM89 billion.

(Source: The Edge Financial Daily, on November 4, 2014)

Nevertheless, Petronas is looking to cut its capital expenditure (capex) for new projects next year by 15% to 20% due to low oil prices. Petronas RM300 billion capex planned for 2011 till 2015 or RM60 billion per year, was made based on assumption of oil price at USD80 per barrel. If global oil prices remained between USD70 and USD75 per barrel next year, Petronas plan to reduce dividend and tax to the government to RM17 billion, each, while oil and gas royalty reduced to RM9 billion. However, it is maintaining its dividend contribution of RM29 billion to the government this year as well as RM26 billion tax and RM13 billion royalty.

(Source: Petronas to cut capex next year, 1 December 2014, http://www.thesundaily.my/news/1249029)

(d) Overview and outlook of the Malaysian petrochemical sector

Petrochemicals are chemicals produced from natural gas, natural-gas liquids, or refinery products derived from crude oil distillation, or cracking. These compounds are made up of hydrocarbons. Some of the products referred to as "petrochemicals" were in the past produced from charcoal, coal-tar distillation by-products, acetylene, or fermentation alcohol.

The growth of the petrochemical industry is supported by the Malaysian Government and Petronas, the national oil and gas company, both determined to make Malaysia a regional hub and base for petrochemicals and for the ASEAN market. Petronas is establishing itself to be a force in the global petrochemical industry with greater participation in international petrochemical projects as well as continuing to embark on new petrochemical projects domestically. The positive and flexible policies adopted by the Government have been a strong pull factor for drawing foreign direct investments in the petrochemical industry.

The industry has developed rapidly thanks to the various advantages enjoyed by the industry including the availability of feedstock, good infrastructure and supporting industries, cost competitiveness as well as strategic location in ASEAN.

(Source: Malaysian Petrochemicals Association)

Three major petrochemical zones have been established in Kertih, Terengganu; Gebeng, Pahang; and Pasir Gudang/Tanjung Langsat, Johor. Each zone is an integrated complex with crackers, syngas and aromatics facilities to produce feedstocks for downstream products. There are also other petrochemical plants in Malaysia such as the ammonia and urea plants in Bintulu, Sarawak and Gurun, Kedah; acrylonitrile butadiene styrene plant in Pulau Pinang; methanol plant in Labuan and the nitrile-butadiene rubber plant in Kluang, Johor. A new petrochemical zone will be established in Pengerang, Johor and is planned to be operational by 2019.

From being an importer of petrochemicals, Malaysia is today an exporter of major petrochemical products.

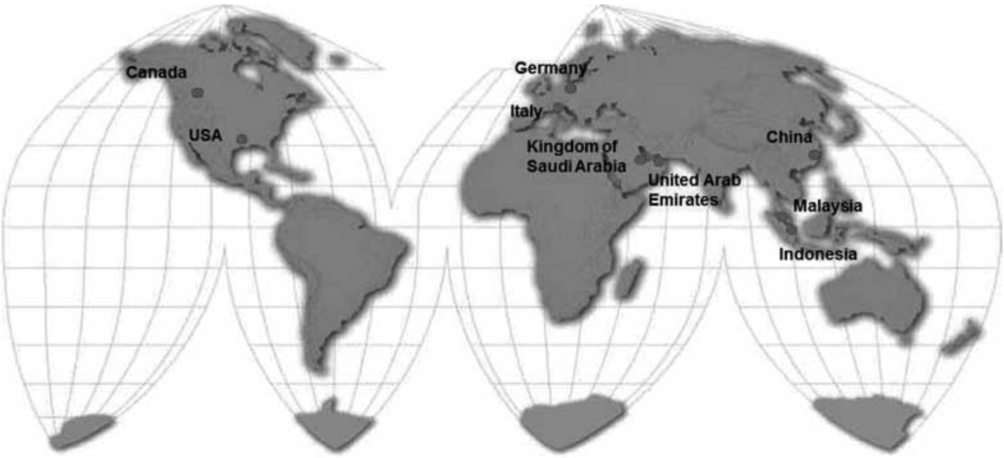
(Source: MIDA, http://www.mida.gov.my/ home/ petrochemical -and- polymer-industry/posts/)

On February 23, 2015, Petronas Chemicals Group Berhad announced that BASF and Petronas Chemicals Group Berhad will build a new USD500 million world-scale production plant for 2-Ethylhexanoic Acid (2-EHAcid) at the site of their existing joint venture, BASF Petronas Chemicals, in Kuantan, Malaysia. The construction of this plant, which will be the first of its kind in the ASEAN region, is expected to commence in second quarter of 2015. The plant, with a total annual capacity of 30,000 metric tons of 2-EHAcid, is expected to start production in the fourth quarter of 2016. The new plant will benefit from backward integration into the site, allowing high delivery reliability and maximizing efficient use of energy and feedstock.

(Source: http://www.petronaschemicals.com.my/News-Announcements/ Documents/ Joint %20News%20Release% 20BASF-PETT%20230215.pdf)

7.3 Prospects of our Group

Our Group is a manufacturer of process equipment and processing units for the oil and gas, petrochemicals, minerals processing, desalination, renewable energy, chemicals and power industries. Currently, our Group operates 15 manufacturing facilities and 3 engineering offices located in 9 countries comprising Canada, Germany, Italy, Indonesia, Kingdom of Saudi Arabia, Malaysia, People Republic of China, USA and United Arab Emirates offering a comprehensive and diversified range of products and services to its clients in more than 60 countries. Our Group's global presence is shown in the diagram below:



Further, the acquisitions of FBM Hudson Italiana SpA in Italy in 2006 and Borsig GmbH in Germany in 2008 have supported our Group's penetration into the high-end equipment market for oil and gas, chemicals, petrochemicals, renewable energy and power generation industries, and diversified our Group's geographic and industry exposure.

Based on the audited consolidated financial statements of our Company for the past 3 years up to FYE 31 December 2013 and the unaudited quarterly results for FYE 31 December 2014, our Group's consolidated revenue and PAT are set out below:-

	Audited			Unaudited
	FYE 31 December 2011 (RM'000)	**FYE 31 December 2012 (RM'000)**	**FYE 31 December 2013 (RM'000)**	**FYE 31 December 2014 (RM'000)**
Revenue	1,963,778	2,386,251	1,984,006	1,865,131
PAT	(93,782)	70,346	19,908	43,255

Based on the audited consolidated financial statements of our Company for the past 3 years up to FYE 31 December 2013 and the unaudited quarterly results for FYE 31 December 2014, our Group's segmental revenue and profit contribution based on geographical location are set out below:-

	Audited			Unaudited
Revenue*	**FYE 31 December 2011 (RM'000)**	**(1)FYE 31 December 2012 (RM'000)**	**(1)FYE 31 December 2013 (RM'000)**	**(2)FYE 31 December 2014 (RM'000)**
Asia and Oceania(3)	539,683	943,169	638,918	439,544
Europe	1,357,592	1,374,330	1,268,144	1,274,849
America	66,503	68,752	76,944	106,519
Total	**1,963,778**	**2,386,251**	**1,984,006**	**(3)1,820,912**

EBITDA*	Audited			Unaudited
	FYE 31 December 2011 (RM'000)	(1)FYE 31 December 2012 (RM'000)	(1)FYE 31 December 2013 (RM'000)	(2)FYE 31 December 2014 (RM'000)
Asia and Oceania(4)	(70,078)	44,611	58,744	136,629
Europe	122,684	173,981	131,866	167,143
America	(65,220)	10,744	7,989	21,585
Total	**(12,614)**	**229,336**	**198,599**	**(5)325,357**

Notes:-

* *Our Group's segmental revenue and profit contribution based on geographical location are net of consolidation adjustments.*

(1) *The financial information presented constitute continuing operations during the respective years. For the FYE 31 December 2013, the Company's Brazil operations have been excluded as it is a discontinued operation. As such, Brazil operations are also excluded in FYE 31 December 2012.*

(2) *The financial information presented constitute continuing operations during the year. Australia operations are excluded as it is a discontinued operation.*

(3) *Excluding revenue from discontinued operations of RM44.22 million.*

(4) *Pursuant to the adoption of Malaysian Financial Reporting Standard 10, for FYE 31 December 2013, two former associated companies were reclassified as KNM's subsidiaries. Hence, the financial information presented has been restated retrospectively since 2011.*

(5) *Excluding loss incurred from discontinued operations of RM44.41 million.*

For FYE 31 December 2012, our Company's consolidated revenue increased by approximately 21.94% or RM0.43 billion to approximately RM2.39 billion as compared to RM1.96 billion recorded in FYE 31 December 2011 as a result of the increase in revenue mainly for Asia and Oceania segments. The increase in revenue for Asia and Oceania segments was mainly due to recognition of higher stage of project progress (based on stage of completion which is in accordance with Malaysian Financial Reporting Standard 111 and in accordance to the terms of the contract entered into between our Group and our customers) particularly for the Lukoil project in Uzbekistan coupled with better project margin contribution during the financial year. In tandem with the increase in revenue, our Group recorded a consolidated PAT of approximately RM70.35 million for FYE 31 December 2012 as compared to a loss of RM93.78 million in FYE 31 December 2011 due to higher profit contribution by all segments, namely Asia and Oceania, Europe and America. The increase in profits for all segments was mainly due to higher project progress recognition and better project margin contribution as mentioned above during the financial year.

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For FYE 31 December 2013, our Company's consolidated revenue decreased by approximately 17.15% or RM0.41 billion to approximately RM1.98 billion as compared to RM2.39 billion recorded in FYE 31 December 2012 as a result of the decrease in revenue for Asia and Oceania and Europe segments. The decrease in revenue for the aforementioned was mainly due to lower project progress recognition (based on stage of completion which is in accordance with Malaysian Financial Reporting Standard 111 and in accordance to the terms of the contract entered into between our Group and our customers) during the financial year. In tandem with the decrease in revenue, our Group recorded a consolidated PAT of approximately RM19.91 million for FYE 31 December 2013 as compared to RM70.35 million in FYE 31 December 2012 due to the decrease in profit contributions by the segments, namely Europe and America. The decrease in profits for the segments was mainly due to lower recognition of project progress as mentioned above during the financial year. The decrease in the consolidated PAT was also due to one-off provision of late delivery charges of approximately RM9.66 million and share of losses from associates/joint venture companies of RM3.50 million during the financial year. Notwithstanding the above, during the 3rd quarter of FYE 31 December 2013, our Group had disposed its Brazilian entities which were weighing down our Group's financial performance due to their poor performance. The disposal of the Brazilian entities registered a gain of approximately RM11.81 million. With the disposal of the Brazilian entities, our Group is expected to be able to further strengthen and focus its financial and operational resources on other endeavours which are expected to benefit our Group moving forward.

For FYE 31 December 2014, our Company's consolidated revenue decreased slightly by approximately 6.00% or RM0.12 billion as a result of the decrease in revenue for Asia and Oceania segment. The decrease in revenue for Asia and Oceania segment was mainly due to lower project progress recognition (based on stage of completion which is in accordance with Malaysian Financial Reporting Standard 111 and in accordance to the terms of the contract entered into between our Group and our customers). Although a lower consolidated revenue was recognised, our Group has recorded a higher consolidated PAT of approximately RM43.26 million for FYE 31 December 2014 as compared to RM19.91 million in FYE 31 December 2013. This was due to the increase in EBITDA margin and overall profit contributions by all the segments, namely Asia and Oceania, Europe & America.

Our Group currently has various process equipment contracts in Malaysia and abroad, of which includes, amongst others, the supply of Sulphur Recovery Unit for the Heavy Residue Conversion Complex located at the Nizhnekamsk, Republic of Tatarstan, Russian Federation awarded by TAIF-NK.

The details of the aforesaid project are disclosed in Section 3 of this AP.

Our Group has, amongst others, the following future projects in its pipeline:-

(a) the PIC project whereby Petronas plans to build a USD27 billion refinery and petrochemicals integrated development project located in Pengerang, the South Eastern tip of the State of Johor which is expected to be completed by 2019. PIC is a prime project on 2,000 hectares of land which is expected to be larger than all the other Petronas hubs in Kerteh, Melaka and Gebeng on a combined basis.

    Our Company had, on 7 August 2014, announced that, SINOPEC Engineering (Group) Co., Ltd. (**"SEG"**) received a Letter of Award from PRPC Refinery And Cracker Sdn Bhd, a subsidiary of Petronas, in respect of an engineering, procurement, construction and commissioning contract for one package of an oil refining and petrochemical integrated engineering project (**"Contract"**). The value of the Contract is expected to be approximately USD1.33 billion. KNM Process System Sdn Bhd, a wholly-owned subsidiary of KNM (**"KNMPS"**), has been cooperating with SEG on the bidding process and it has been agreed that KNMPS is a selected subcontractor to SEG for the execution of the Contract, whereby KNMPS will provide process equipment and related services. The project is expected to be completed by 2019. KNMPS is currently finalising the contract value, terms and conditions of the subcontract agreement with SEG. In addition, KNMPS is also in the discussion with other awardees of the PIC packages to supply process equipment.

(b) the Peterborough EnergyPark development of a 80 mega watt waste to energy power plant in Peterborough, England. KNMPS will undertake the engineering, procurement, construction and commissioning (**"EPCC"**) of the Peterborough power plant project. Currently, the Peterborough project has fully complied with the conditions imposed in the Planning Permission issued by the Department of Energy and Climate Change, United Kingdom, for the commencement of the site works. Currently, KNMPS is still in the midst of finalising the contract value, terms and conditions of the EPCC contract.

With our Group's participation in the PIC project and the Peterborough project, our Board is optimistic that both projects will contribute positively to the future earnings of our Group's financial performance.

The recent fall in crude oil prices is not expected to have a direct material adverse impact on our Group's operational and financial performance as our Group's customers are mainly downstream onshore operators of chemical and petrochemical plants, refineries and power generation facilities. Nevertheless, if the trend continues (the crude oil price is sustained at the current low levels for a significant period of time), this may have an adverse effect on our Group in the long run, as our Group's customers may defer capital investment decision related to crude oil refinery projects, until the crude oil price and market sentiment stabilised. In the event our customers defer their investment decision, this may result in lesser future projects available in market for our Group to secure.

Despite the prevailing weak sentiments of the oil and gas industry, our Company believes that the long term oil and gas industry outlook will remain positive with sizeable investments continuing to be made by major oil and gas players to cater for demand. As such, with our Company's comprehensive knowledge and capability coupled with its international experience in countries, such as, amongst others, Canada, Germany and Italy, our Company will be able to capitalise on potential local and global opportunities moving forward.

As part of its growth strategy, our Group will continue to explore new ventures and new business activities which are synergistic or complementary to our Group's global operations in order to make further inroads into potential new products and businesses and to penetrate other promising market segments and geographies.

Further to the above, on 12 March 2015, our Company's wholly owned subsidiary, KNMRE, had entered into a SPA with the Vendors for the acquisition of the Vendors' entire equity interest in ABL and ABL II, which collectively own a combined 72% equity interest in IEL and 49% equity interest in IFL, for a total consideration of USD24.0 million (equivalent to RM88.49 million based on the exchange rate of USD1:RM3.687). IEL is principally involved in the production and sale of fuel grade and industrial grade ethanol whilst IFL is principally involved in the trading and supply of cassava for bio-ethanol purposes. The Proposed Acquisition is expected to enhance our participation in the renewable energy sector, particularly in the production of ethanol, and provide recurring income for our Group in the long term. Our Board views that the renewable energy sector offers a potential for growth opportunities and business expansion and shall be a key development area for our Group to focus on in the coming years.

Our Board is confident of the future prospects of our Group in view that the Rights Issue with Warrants to be undertaken would serve to strengthen the financial position of our Group which will allow our Company to pursue growth through new ventures and new business activities. As such, our Board anticipates that our Group will be able to secure more projects moving forward.

8. EFFECTS OF THE RIGHTS ISSUE WITH WARRANTS

The effects of the Rights Issue with Warrants are set out in the ensuing sections.

The effects have not included the effects of the announcement made on 13 March 2015, whereby, our wholly owned subsidiary, KNMRE entered into a SPA on 12 March 2015 with the Vendors to acquire the entire equity interest in ABL and ABL II, which owns a combined 72% equity interest in IEL and 49% equity interest in IFL, for a total consideration of USD24.0 million (equivalent to RM88.49 million based on the exchange rate of USD1:RM3.687).

Pursuant to the SPA, the consideration shall be satisfied in full by:

(i) cash payment of USD12.0 million within 3 market days upon satisfaction of the conditions precedent and completion of all the completion obligations per the SPA; and

(ii) the issuance of new KNM Shares representing USD12.0 million within 90 days from the date of payment of the Initial Cash Consideration. In the event KNMRE fails to pay the Consideration Shares within the aforementioned period, KNMRE shall pay USD12.0 million in cash to the Vendors instead.

The number and issue price of the Consideration Shares shall be determined at the time of settlement of the consideration and shall be priced at a 10% discount to the 5-day weighted average price for trades done on Bursa Securities prior to the issuance.

As at the date of the AP, the parties to the SPA have yet to fulfil all the conditions precedent as stipulated in the SPA. In accordance to the SPA, the conditions precedent are to be satisfied or waived by the respective party to the SPA by 15 April 2015 or otherwise extended by mutual consent by the parties.

Based on the above, upon the conditions precedent being fulfilled and completion of the Proposed Acquisition, the Proposed Acquisition will affect our Group as follows:-

(i) The Initial Cash Consideration will be funded via internally generated funds and/or borrowings. In the event the Initial Cash Consideration is settled via:-

(a) bank borrowings, the Proposed Acquisition is expected to have an effect on the consolidated NA per Share in view of interest cost on the bank borrowings and gearing of our Group; or

(b) internally generated funds, the Proposed Acquisition is not expected to have any material effect on the consolidated NA per Share and gearing of our Group. This is expected to affect the cash and bank balances of our Group.

The effects of the Proposed Acquisition on the consolidated NA per Share and gearing cannot be determined at this juncture as it is dependent on whether our Group utilises internally generated funds and/or bank borrowings to settle the Initial Cash Consideration upon satisfaction of the conditions precedent and completion of all the Vendors' completion obligations as stipulated in the SPA.

(ii) With regards to the Consideration Shares,

(a) in the event the Proposed Acquisition is partially settled via new issuance of KNM Shares (equivalent to the sum of USD12 million), this will affect our share capital. Accordingly, the equity interest of our existing shareholders will be diluted. The quantum of dilution cannot be determined at this juncture as this will be dependent on the issue price of the Consideration Shares and the number of Consideration Shares to be issued upon completion of the Proposed Acquisition; or

(b) should the Consideration Shares be satisfied in cash instead, the Proposed Acquisition is not expected to affect our share capital. However, a cash settlement is expected to affect the cash and bank balances and/or borrowings/gearing of our Group.

The Proposed Acquisition is not expected to have any material effect on the earnings and EPS of our Group for the financial year ending 31 December 2015. However, in the long term, the Proposed Acquisition is expected to contribute positively and provide a recurring income for our Group.

Hence, the effects of the Proposed Acquisition cannot be determined at this juncture as it is dependent on the fulfilment of conditions precedents and whether our Group will issue KNM Shares or pay in cash for the balance of the consideration. Further, the Proposed Acquisition is expected to be completed after the Entitlement Date and therefore, the Consideration Shares, if issued will not be entitled to the Rights Issue with Warrants.

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8.1 Issued and paid-up share capital

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

	Minimum Scenario		Maximum Scenario	
	No. of KNM Shares	**RM**	**No. of KNM Shares**	**RM**
Issued and paid-up share capital as at LPD	1,639,035,652	819,517,826	1,639,035,652	819,517,826
Treasury shares	(23,291,275)	(11,645,638)	(23,291,275)	(11,645,638)
	1,615,744,377	807,872,188	1,615,744,377	807,872,188
Assuming all treasury shares are resold	-	-	23,291,275	11,645,638
	1,615,744,377	807,872,188	1,639,035,652	819,517,826
Shares to be issued assuming all of the outstanding ESOS options vested on 25 July 2014 are exercised	-	-	24,200,900	12,100,450
	1,615,744,377	807,872,188	1,663,236,552	831,618,276
Shares to be issued assuming all of the outstanding Warrants A are exercised	-	-	488,920,659	244,460,330
	1,615,744,377	807,872,188	2,152,157,211	1,076,078,606
Shares to be issued pursuant to the Rights Issue with Warrants	323,148,875	161,574,438	430,431,442	215,215,721
Enlarged issued and paid-up share capital after the Rights Issue with Warrants	**1,938,893,252**	**969,446,626**	**2,582,588,653**	**1,291,294,326**
Shares to be issued assuming full exercise of the Warrants B	161,574,438	80,787,219	215,215,721	107,607,861
Enlarged issued and paid-up share capital after full exercise of the Warrants B	**2,100,467,690**	**1,050,233,845**	**2,797,804,374**	**1,398,902,188**

The Proposed Acquisition is expected to be completed after the Entitlement Date and therefore, the Consideration Shares, if issued will not be entitled to the Rights Issue with Warrants. Hence, the table above does not take into consideration the effects of the Consideration Shares that may be issued pursuant to the Proposed Acquisition.

8.2 NA per Share and gearing

Based on the audited consolidated statement of financial position of our Group as at 31 December 2013 and on the assumption that the Rights Issue with Warrants had been effected on that date, the proforma effect of the Rights Issue with Warrants on the NA per Share and gearing of our Group are as follows:-

Minimum Scenario

		(I)	(II)	
	Audited as at 31 December 2013	**[3]After subsequent events**	**After (I) and the Rights Issue with Warrants**	**After (II) and assuming full exercise of the Warrants B**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Share capital	[1]1,445,033	[3a,b&c]774,538	[7][8]908,644	[11]1,016,899
Share premium	16,707	[3a,b&c]790,155	[9]785,855	[11]866,642
Treasury shares	(53,390)	[3d](53,403)	(53,403)	(53,403)
Revaluation reserve	35,609	35,609	35,609	35,609
Translation reserve	(343,480)	(343,480)	(343,480)	(343,480)
Hedging reserve	323	323	323	323
Warrant reserve	44,981	44,981	[8]72,449	[11]44,981
ESOS reserve	-	[3c][4]12,034	12,034	12,034
Retained profits	913,972	[4]901,069	901,069	901,069
Shareholders' funds/NA	2,059,755	2,161,826	2,319,100	2,480,674
Non-controlling interests	(156)	(156)	(156)	(156)
Total equity	2,059,599	2,161,670	2,318,944	2,480,518
No. of KNM Shares ('000)	[2]1,466,743	[5]1,615,745	[5][7]1,938,894	[5][11]2,100,468
NA per KNM Share (RM)*	1.40	1.34	1.20	1.18
Total borrowings	947,021	[6]892,021	[10]775,721	775,721
Gearing (times)	0.46	0.41	0.33	0.31

Notes:-

* *NA per KNM Share is computed based on shareholders' fund/NA divided by the number of KNM Shares.*

(1) Based on the issued and paid-up share capital of the Company of RM1,490.01 million comprising 1,490,013,252 ordinary shares of RM1.00 each in KNM and after taking into account the allocation of fair value of the Warrants A of approximately RM44.98 million as at 31 December 2013.

(2) Excluding 23,271,275 treasury shares as at 31 December 2013.

(3) *After adjusting for the following subsequent events:-*

  (a) *On 29 April 2014, the High Court of Malaya had granted an order confirming the Par Value Reduction pursuant to Section 64 of the Act and a copy of the sealed court order has been duly lodged with the Companies Commission of Malaysia on 30 April 2014. Pursuant to the Par Value Reduction, the share capital of the Company had been reduced from RM1,490.01 million comprising 1,490,013,252 ordinary shares of RM1.00 each in KNM to RM745.01 million comprising 1,490,013,252 KNM Shares.*

  (b) *The Private Placement was completed on 30 May 2014. Pursuant to the Private Placement, a share premium totalling approximately RM29.33 million was credited to the share premium account, being RM0.20 premium per placement share, whilst share issuance expense of RM2.14 million was debited to the share premium account.*

  (c) *2,348,300 ESOS options exercised at the exercise price of RM0.66 in August, September, October and November 2014 for 2,348,300 new KNM Shares which resulted in the increase in share premium account of approximately RM1.25 million (i.e. RM0.16 premium per KNM Share upon exercise of the ESOS options which amounted to RM0.38 million and the reversal of the ESOS options reserve of approximately RM0.87 million being credited to the share premium account) and reversal of the ESOS options reserve of approximately RM0.87 million.*

  (d) *Purchase of 20,000 KNM treasury shares of RM0.50 each from 30 May 2014 to 1 December 2014 from the open market at a cost of approximately RM13,000*

(4) *On 25 July 2014, our Company granted a total of 212,491,400 ESOS options and the fair value assigned to the ESOS options was RM0.37 each, determined using the Black Scholes pricing model based on the relative fair values of ESOS options extracted from Bloomberg as at 25 July 2014. RM13.84 million was recognised as the fair value of the ESOS options granted as ESOS reserve based on the 26,845,800 ESOS options vested on 25 July 2014. The fair value was reassessed based on the ESOS options outstanding as at 31 December 2014 and an amount of RM0.93 million was transferred from the ESOS reserve to retain profits.*

(5) *Excluding 23,291,275 treasury shares as at the LPD.*

(6) *After adjusting for repayment of bank borrowings of RM55.0 million from the proceeds raised under the Private Placement.*

(7) *Based on 323,148,875 Rights Shares issued at an issue price of the Rights Shares of RM0.50 per Rights Share (26.47% discount to the TERP of KNM Shares of approximately RM0.68, based on the 5-day VWAP of KNM Shares prior to the Price-Fixing Date of RM0.71 per Share).*

(8) *After adjusting for theoretical fair value of 161,574,438 Warrants B of approximately RM27.47 million, being RM0.17 per Warrant B, based on the Black Scholes pricing model, after taking into account, amongst others, period of the Warrants B of 5 years, risk free rate of 3.65% (based on 5-year Malaysian Government Securities as at 27 February 2015), volatility of KNM Shares and closing price of KNM Shares as at 27 February 2015 of RM0.705 (Source: Bloomberg).*

(9) *After adjusting for estimated expenses relating to the Corporate Exercises of approximately RM4.30 million against the share premium account in accordance to Section 60(3)(e) of the Act.*

(10) *After adjusting for repayment of bank borrowings of RM116.30 million from the proceeds raised under the Rights Issue with Warrants.*

(11) *Assuming full exercise of 161,574,438 Warrants B at an exercise price of RM1.00 per Warrant B for 161,574,438 new KNM Shares which resulted in the increase in share premium account of approximately RM80.79 million and reversal of the warrants reserve of approximately RM27.47 million.*

Maximum Scenario

	Audited as at 31 December 2013	(I) [3]After subsequent events	(II) After (I) and assuming all treasury shares are resold and all of the outstanding Warrants A and ESOS options are exercised	(III) After (II) and the Rights Issue with Warrants	After (III) and assuming full exercise of the Warrants B
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Share capital	[1]1,445,033	[3a,b&c]774,538	[8][9]1,076,079	[10][11]1,254,708	[14]1,398,903
Share premium	16,707	[3a,b&c]790,155	[8][9]1,047,442	[12]1,042,242	[14]1,149,850
Treasury shares	(53,390)	[3d](53,403)	[7]-	-	-
Revaluation reserve	35,609	35,609	35,609	35,609	35,609
Translation reserve	(343,480)	(343,480)	(343,480)	(343,480)	(343,480)
Hedging reserve	323	323	323	323	323
Warrant reserve	44,981	44,981	[8]-	[11]36,587	[14]-
ESOS reserve	-	[3c][4]12,034	3,080	3,080	3,080
Retained profits	913,972	[4]901,069	[7]882,603	882,603	882,603
Shareholders' funds/NA	2,059,755	2,161,826	2,701,656	2,911,672	3,126,888
Non-controlling interests	(156)	(156)	(156)	(156)	(156)
Total equity	2,059,599	2,161,670	2,701,500	2,911,516	3,126,732
No. of KNM Shares ('000)	[2]1,466,743	[5]1,615,745	[7][8][9]2,152,156	[10]2,582,589	[14]2,797,803
NA per KNM Share (RM)*	1.40	1.34	1.26	1.13	1.12
Total borrowings	947,021	[6]892,021	892,021	[13]737,021	737,021
Gearing (times)	0.46	0.41	0.33	0.25	0.24

Notes:-

* *NA per KNM Share is computed based on shareholders' fund/NA divided by the number of KNM Shares.*

(1) *Based on the issued and paid-up share capital of the Company of RM1,490.01 million comprising 1,490,013,252 ordinary shares of RM1.00 each in KNM and after taking into account the allocation of fair value of the Warrants A of approximately RM44.98 million as at 31 December 2013.*

(2) *Excluding 23,271,275 treasury shares as at 31 December 2013.*

(3) *After adjusting for the following subsequent events:-*

(a) *On 29 April 2014, the High Court of Malaya had granted an order confirming the Par Value Reduction pursuant to Section 64 of the Act and a copy of the sealed court order has been duly lodged with the Companies Commission of Malaysia on 30 April 2014. Pursuant to the Par Value Reduction, the share capital of the Company had been reduced from RM1,490.01 million comprising 1,490,013,252 ordinary shares of RM1.00 each in KNM to RM745.01 million comprising 1,490,013,252 KNM Shares.*

(b) *The Private Placement was completed on 30 May 2014. Pursuant to the Private Placement, a share premium totalling approximately RM29.33 million was credited to the share premium account, being RM0.20 premium per placement share, whilst share issuance expense of RM2.14 million was debited to the share premium account.*

(c) *2,348,300 ESOS options exercised at the exercise price of RM0.66 in August, September, October and November 2014 for 2,348,300 new KNM Shares which resulted in the increase in share premium account of approximately RM1.25 million (i.e. RM0.16 premium per KNM Share upon exercise of the ESOS options which amounted to RM0.38 million and the reversal of the ESOS options reserve of approximately RM0.87 million being credited to the share premium account) and reversal of the ESOS options reserve of approximately RM0.87 million.*

(d) *Purchase of 20,000 KNM treasury shares of RM0.50 each from 30 May 2014 to 1 December 2014 from the open market at a cost of approximately RM13,000 .*

(4) *On 25 July 2014, our Company granted a total of 212,491,400 ESOS options and the fair value assigned to the ESOS options was RM0.37 each, determined using the Black Scholes pricing model based on the relative fair values of ESOS options extracted from Bloomberg as at 25 July 2014. RM13.84 million was recognised as the fair value of the ESOS options granted as ESOS reserve based on the 26,845,800 ESOS options vested on 25 July 2014. The fair value was reassessed based on the ESOS options outstanding as at 31 December 2014 and an amount of RM0.93 million was transferred from the ESOS reserve to retain profits.*

(5) *Excluding 23,291,275 treasury shares as at the LPD.*

(6) *After adjusting for repayment of bank borrowings of RM55.0 million from the proceeds raised under the Private Placement.*

(7) *Assuming all 23,291,275 treasury shares are sold at RM1.50 per treasury share which resulted in a decrease in retained profits of approximately RM18.47 million due to a loss arising from the resale of the treasury shares and reversal of the treasury shares account of approximately RM53.40 million prior to the implementation of the Corporate Exercises.*

(8) *Assuming full exercise of 488,920,659 Warrants A at the exercise price of RM1.00 per Warrant A for 488,920,659 new KNM Shares which resulted in the increase in share premium account of approximately RM244.46 million and reversal of the warrants reserve of approximately RM44.98 million prior to the implementation of the Corporate Exercises.*

(9) *Assuming full exercise of 24,200,900 ESOS options vested at the exercise price of RM0.66 per ESOS option for 24,200,900 new KNM Shares which resulted in the increase in share premium account of approximately RM12.82 million (i.e. RM0.16 premium per KNM Share upon exercise of the ESOS options which amounted to RM3.87 million and the reversal of the ESOS options reserve of approximately RM8.95 million being credited to the share premium account) and reversal of the ESOS options reserve of approximately RM8.95 million prior to the implementation of the corporate exercise.*

(10) *Based on 430,431,442 Rights Shares issued at an issue price of the Rights Shares of RM0.50 per Rights Share (26.47% discount to the TERP of KNM Shares of approximately RM0.68, based on the 5-day VWAP of KNM Shares prior to the Price-Fixing Date of RM0.71 per Share)*

(11) *After adjusting for theoretical fair value of 215,215,721 Warrants B of approximately RM36.59 million, being RM0.17 per Warrant B, based on the Black Scholes pricing model, after taking into account, amongst others, period of the Warrants B of 5 years, risk free rate of 3.65% (based on 5-year Malaysian Government Securities as at 27 February 2015), volatility of KNM Shares and closing price of KNM Shares as at 27 February 2015 of RM0.705 (Source: Bloomberg).*

(12) *After adjusting for estimated expenses relating to the Corporate Exercises of approximately RM5.20 million against the share premium account in accordance to Section 60(3)(e) of the Act.*

(13) *After adjusting for repayment of bank borrowings of RM155.0 million from the proceeds raised under the Rights Issue with Warrants.*

(14) *Assuming full exercise of 215,215,721 Warrants B at an exercise price of RM1.00 per Warrant B for 215,215,721 new KNM Shares which resulted in the increase in share premium account of approximately RM107.61 million and reversal of the warrants reserve of approximately RM36.59 million.*

8.3 Earnings and EPS

The Rights Issue with Warrants is not expected to have any material effect on the earnings of our Group for the financial year ending 31 December 2015.

Nevertheless, barring unforeseen circumstances, the Rights Issue with Warrants 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 with Warrants materialise. Further, as part of the proceeds to be raised from the Rights Issue with Warrants will be utilised to repay the bank borrowings of our Group, the interest savings arising from the repayment of the bank borrowings will translate to an improvement to our Group's earnings. Based on the audited consolidated financial statements of our Company as at 31 December 2013 and unaudited quarterly results of our Group as at 31 December 2014, our Group's total bank borrowings amounted to approximately RM947.02 million and RM798.59 million respectively. Hence, the repayment of bank borrowings of RM116.30 million and RM155.0 million under the Minimum Scenario and Maximum Scenario, respectively, from the proceeds raised from the Rights Issue with Warrants would allow our Group to enjoy interest savings of approximately RM9.26 million and RM11.75 million per annum, based on the weighted average interest rate of 7.96% per annum and 7.58% per annum for our Group under the Minimum Scenario and Maximum Scenario, respectively.

Notwithstanding the above, the consolidated EPS of our Company is expected to be diluted as a result of the increase in number of KNM Shares to be issued pursuant to the Rights Issue with Warrants and arising from the number of new KNM Shares to be issued upon the exercise of the Warrants B.

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

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

9.1 Working capital

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

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9.2 Borrowings

As at the LPD, our Group has total outstanding borrowings of approximately RM788.18 million, all of which are interest bearing, as follows:-

	Short-term borrowings	Long-term borrowings	Total borrowings
	(RM'000)	**(RM'000)**	**(RM'000)**
Borrowings (secured)	318,866	208,690	527,556
Borrowings (unsecured)	45,008	391	45,399
Bank Overdraft	4,365	-	4,365
Bills Payable	120,543	-	120,543
Hire Purchase	10,943	15,869	26,812
Revolving credit	63,500	-	63,500
	563,225	**224,950**	**788,175**

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	Exchange rate as at the LPD*	Amount of debt denominated in RM
	(million)		**(RM million)**
RMB	20.00	0.5748	11.50
EUR	76.51	4.0433	309.35
CAD	6.10	2.8876	17.61
USD	15.55	3.6040	56.04

Note:-

* *Source: Bank Negara Malaysia.*

Other than disclosed above, we do not have any other borrowings.

There has not been any default on payments of either interest and/or principal sums in respect of any borrowings throughout the FYE 31 December 2014 and the subsequent financial period up to the LPD.

As at LPD, neither we nor our subsidiaries are in breach of any terms and conditions or covenants associated with our borrowing facility agreements, which could materially affect our financial position and results or business operations.

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9.3 Contingent liabilities

As at the LPD, save as disclosed below and the material litigation as disclosed in Section 4 of Appendix VII, there are no contingent liabilities incurred or known to be incurred by our Group which, upon becoming enforceable, may have a material impact on the financial results/position of our Group.

(a) guarantees of approximately RM1,014.80 million provided by our Company to various parties for borrowings of our subsidiaries; and

(b) tax matters on our foreign subsidiary, being FBM Hudson Italiana S.p.A. under appeal amounting to EUR1.97 million to the foreign tax authorities[2].

9.4 Material commitments

As at the LPD, save as disclosed below, there are no material commitments incurred or known to be incurred by our Group, which upon becoming enforceable may have a material impact on the financial position of our Group:-

	Authorised but not contracted for (RM'000)	**Authorised and contracted for (RM'000)**
Property, plant and equipment*	13,473	6,581

Note:

* *Being capital expenditures for computer software, plant, machineries and equipment for enhancing fabrication and production facilities.*

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

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2 *On 13 March 2013, a foreign tax authorities has issued a preliminary tax notification amounting to RM8.8million (equivalent to EUR1.97 million) against a foreign subsidiary following a tax inspection on tax years from 2008 to 2011. Subsequent to that notification, the subsidiary has provided the necessary documentation to the tax authorities to support its position. Notwithstanding the information provided, on 22 April 2013, the subsidiary has received a tax assessment relating only to the tax year 2008 and on the same matter which the tax authorities has challenged and reported in their preliminary notification. Although no assessments have been raised in respect of the other tax years (2009 to 2012) inspected, the matters reported in the preliminary tax notification should be considered as still open to assessments.*

The subsidiary has appealed against the tax assessment in September 2013.

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

This AP and the RSF contain full instructions for the acceptance of and payment for the provisionally allotted Rights Shares as well as application for the Excess Rights Shares with Warrants and the procedures to be followed if you and/or your transferee and/or your renouncee wish to sell or transfer all or any part of your/his rights entitlement. You and/or your transferee and/or your renouncee are advised to read this AP, the RSF and the notes and instructions printed therein carefully. The RSF must not be circulated unless accompanied by AP.

Acceptance of and/or payment for the provisionally allotted Rights Shares which do not conform strictly to the terms of this AP, the RSF and the notes and instructions printed therein or which are illegible may be rejected at the absolute discretion of our Board.

10.1 General

If you are an Entitled Shareholder, your CDS Account will be duly credited with the number of Provisional Rights Shares with Warrants B which you are entitled to subscribe for, in full or in part under the terms of the Rights Issue with Warrants (fractional entitlement, if any, having been disregarded). You will find enclosed with this AP, the following:-

(a) the NPA notifying you of the crediting of such Provisional Rights Shares with Warrants B into your CDS Account;

(b) the RSF to enable you to subscribe for such Rights Shares with Warrants B that you have been provisionally allotted as well as to apply for any Excess Rights Shares with Warrants B if you choose to do so; and

(c) a reply envelope addressed to our Share Registrar.

This AP and the RSF are also available at your stockbroker, our registered office, our Share Registrar or from Bursa Securities' website (https://www.bursamalaysia.com).

10.2 NPA

The Provisional Rights Shares with Warrants B are prescribed securities under Section 14(5) of the SICDA. All dealings in the Provisional Rights Shares with Warrants B will therefore be by book entries through CDS Accounts and will be governed by the SICDA and the Rules of Bursa Depository. As an Entitled Shareholder, you are required to have valid and subsisting CDS Accounts when making the applications.

10.3 Acceptance and payment

If you wish to accept all or part of your entitlement to the Provisional Rights Shares with Warrants B, please complete Parts I and II 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 our Board.

Each completed and signed RSF together with the relevant payment must be delivered (at your own risk) either by **ORDINARY POST, COURIER** or **DELIVERY BY HAND** using the official envelope provided to our Share Registrar at the following address:-

FOR DELIVERY BY HAND AND/OR COURIER	**FOR ORDINARY POST**
Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Malaysia	Peti Surat 9150 Pejabat Pos Kelana Jaya 46785 Petaling Jaya Selangor Darul Ehsan, Malaysia

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

so as to arrive not later than **5.00 p.m.** on **13 April 2015**, being the last date and time for acceptance and payment, or such later date and time as our Board may decide in its absolute discretion 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 (https://www.bursamalaysia.com), our Share Registrar at the address stated above or our Registered Office at the following address: -

15 Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan
Malaysia

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

Only 1 RSF can be used for acceptance of the Provisional Rights Shares with Warrants B standing to the credit of 1 CDS Account. Separate RSFs must be used for the acceptance of the Provisional Rights Shares with Warrants B standing to the credit of more than 1 CDS Account. Upon allotment and issuance, the Rights Shares with Warrants B will be credited into the CDS Account stated in the RSF.

You are advised to use 1 reply envelope for each completed RSF.

If you do not wish to accept the Provisional Rights Shares with Warrants B in full, you are entitled to accept part of your entitlement to the Provisional Rights Shares with Warrants B. You must complete both Part I(A) of the RSF by specifying the number of Rights Shares with Warrants B which you are accepting (in the stipulated proportions) and Part II of the RSF and deliver the completed and signed RSF together with the relevant payment to our Share Registrar. The portion of the Rights Shares with Warrants B that have not been accepted will be allotted to applicants applying for Excess Rights Shares with Warrants B in the manner set out in Section 10.5 of this AP.

You should take note that a trading board lot for the Rights Shares with Warrants B comprises 100 Rights Shares and 100 Warrants B respectively. Successful applicants will be given 1 Warrant B for every 2 Rights Shares subscribed for. The minimum number of Rights Shares that can be subscribed for or accepted is 1 Rights Share (fractional entitlement, if any, having been disregarded). However, the minimum number of Warrants B that can be issued and allotted with the accepted Rights Shares is 1 Warrant B. Applicants who subscribed for 1 Rights Share will not be entitled to any free Warrant B. In order to be entitled for 1 free Warrant B, applicants would have to subscribe for a minimum of 2 Rights Shares. Fractions of a Warrant B will be dealt with by our Board as it may deem fit, expedient and in the best interest of the Company.

Each completed RSF must be accompanied by the appropriate remittance in RM for the full exact amount payable for the Rights Shares with Warrants B 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 (in block letters), 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 our 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 B. 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 B 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 WITHIN 8 MARKET DAYS FROM THE LAST DATE AND TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE PROVISIONAL RIGHTS SHARES WITH WARRANTS B OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

If the acceptance of and payment for the Provisional Rights Shares with Warrants B 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 13 April 2015,** being the last date and time for acceptance and payment, or such later date and time as our Board may decide in its absolute discretion and announce not less than 2 Market Days before the stipulated date and time, you and your renouncee(s) (if applicable) will be deemed to have declined the provisional entitlement made to you and it will be cancelled. Proof of time of postage shall not constitute proof of time of receipt by our Share Registrar.

Such Rights Shares with Warrants B not taken up shall first be made available for application for Excess Rights Shares with Warrants B in the manner as set out in Section 10.5 of this AP and if undersubscribed, any remaining Rights Shares with Warrants B 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. OUR 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 WITHIN 15 MARKET DAYS FROM THE LAST DATE AND TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE PROVISIONAL RIGHTS SHARES WITH WARRANTS B.

10.4 Sale/transfer of Provisional Rights Shares with Warrants B

As an Entitled Shareholder, you may wish to sell or transfer all or part of your entitlement to the Provisional Rights Shares with Warrants B to 1 or more than 1 person immediately through your stockbroker(s) for the period up to the last date and time for sale or transfer of such Provisional Rights Shares with Warrants B without first having to request for a split of the Provisional Rights Shares with Warrants B 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 B, 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.

In selling/transferring all or part of your entitlement to the Provisional Rights Shares with Warrants B, 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 B standing to the credit of your CDS Account(s) for settlement of the sale/transfer.

Purchaser(s) of the Provisional Rights Shares with Warrants B may obtain a copy of this AP and the RSF from all Malaysian stockbroking companies, Bursa Securities' website (https://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 B, you may still accept the balance of your entitlement to the Provisional Rights Shares with Warrants B by completing Parts I(A) and II 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 B accepted to our Share Registrar in accordance with the instructions as set out in Section 10.3 of this AP.

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

10.5 Application for Excess Rights Shares with Warrants B

If you wish to apply for additional Rights Shares with Warrants B in excess of those provisionally allotted to you, you may do so by completing Part I(B) of the RSF (in addition to Parts I(A) and II of the RSF) and forwarding the RSF, together with a **separate** remittance for the full exact amount payable in respect of the Excess Rights Shares with Warrants B applied for to our Share Registrar so as to arrive **not later than 5.00 p.m. on 13 April 2015**, being the last date and time for the application and payment, or such later date and time as our 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 B applied for shall be made in the same manner described in Section 10.3 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 (in block letters), 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 our Board. Cheques or any other mode of payments not prescribed herein are not acceptable.

The Board reserves the right to allot the Excess Rights Shares with Warrants B applied for by the Entitled Shareholders for the Rights Issue of Warrants and/or their renouncee(s) in a fair and equitable manner, on such basis as it may deem fit or expedient and in the best interest of the Company. The basis for allotment of the Excess Rights Shares with Warrants B is set out below:-

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

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

(iii) thirdly, for allocation to the Entitled Shareholders who have applied for the Excess Rights Shares with Warrants B on a pro-rata basis, calculated based on the quantum of their respective Excess Rights Shares with Warrants B application; and

(iv) finally, for allocation to the renouncee(s) (if applicable) who have applied for the Excess Rights Shares with Warrants B on a pro-rata basis, calculated based on the quantum of their respective Excess Rights Shares with Warrants B application.

Nevertheless, our Board reserves the right to allot any Excess Rights Shares with Warrants B applied for under Part I(B) of the RSF in such a manner as our Board deems fit and expedient in the best interest of our Company subject always that such allocation being made on a fair and equitable basis and that the intention of our Board set out in (i) to (iv) above are achieved. Our Board also reserves the right to accept any application for Excess Rights Shares with Warrants B in full or in part only without assigning any reason.

NO ACKNOWLEDGEMENT WILL BE ISSUED BY OUR COMPANY OR OUR SHARE REGISTRAR FOR THE RECEIPT OF THE EXCESS RIGHTS SHARES WITH WARRANTS B 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 B 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 WITHIN 8 MARKET DAYS FROM THE LAST DATE AND TIME FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES WITH WARRANTS B OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

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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 B 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 WITHIN 15 MARKET DAYS FROM THE LAST DATE AND TIME FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES WITH WARRANTS B.

10.6 Acceptance by renouncee(s)

As a renouncee, the procedures for acceptance, selling/transferring of the Provisional Rights Shares with Warrants B, applying for the Excess Rights Shares with Warrants B and/or payment is the same as that which is applicable to Entitled Shareholders as described in Sections 10.3 to 10.5 of this AP.

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

RENOUNCEES ARE ADVISED TO READ, UNDERSTAND AND CONSIDER CAREFULLY THE CONTENTS OF THIS AP AND ADHERE TO THE RSF, THE NOTES AND INSTRUCTIONS CONTAINED THEREIN.

10.7 CDS Account

Bursa Securities has already prescribed the securities of our Company listed on the Main Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Provisional Rights Shares and Warrants B are prescribed securities and as such, all dealings in the Provisional Rights Shares with Warrants B 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 subscribe for the Rights Shares with Warrants B. Failure to comply with these specific instructions or inaccuracy of the CDS Account number may result in your application being rejected.

The acceptance of the provisionally allotted Rights Shares with Warrants B by you or your renouncee(s) shall constitute consent to receiving such provisionally allotted Rights Shares and Warrants B as prescribed securities which will be credited directly into the respective CDS Accounts.

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

10.8 Foreign shareholders

This AP together with the accompanying documents issued in connection with the Rights Issue with Warrants are not and will not be made to comply 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 countries or jurisdictions other than Malaysia, and the Rights Issue with Warrants will not be offered for purchase or subscription in any countries or jurisdictions other than Malaysia.

Accordingly, this AP 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 Entitled 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 Entitled Shareholders may collect the AP 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 AP.

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

Foreign Entitled 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 Affin Hwang IB in respect of their rights or entitlements under the Rights Issue with Warrants. 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 with Warrants.

Foreign Entitled 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 Entitled Shareholders in the Rights Issue with Warrants shall be on the basis of a warranty by them that they may lawfully so participate without our Company and/or Affin Hwang IB being in breach of the laws of any jurisdiction.

Neither our Company, Affin Hwang IB, Share Registrar nor any other advisers to the Rights Issue with Warrants 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 with Warrants 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 with Warrants is governed by the terms and conditions set out in the Documents.

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
Chief Executive Officer/Executive Director

CERTIFIED TRUE EXTRACT OF THE RESOLUTIONS IN RESPECT OF THE CORPORATE EXERCISES PASSED AT OUR EGM HELD ON 19 DECEMBER 2014

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

CERTIFIED TRUE EXTRACT OF MINUTES OF THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY HELD AT PARAMESWARA ROOM, LEVEL 2, MINES WELLNESS HOTEL, JALAN DULANG, MINES RESORT CITY, 43300 SERI KEMBANGAN, SELANGOR, MALAYSIA ON 19 DECEMBER 2014

RESOLVED:

ORDINARY RESOLUTION 1

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 430,490,762 NEW ORDINARY SHARES OF RM0.50 EACH IN KNM ("KNM SHARE(S) OR "SHARE(S)") ("RIGHTS SHARE(S)") ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 5 EXISTING KNM SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER TOGETHER WITH UP TO 215,245,381 NEW FREE DETACHABLE WARRANTS ("WARRANT(S) B") ON THE BASIS OF 1 WARRANT B FOR EVERY 2 RIGHTS SHARES SUBSCRIBED ("PROPOSED RIGHTS ISSUE WITH WARRANTS")

THAT, subject to the passing of Ordinary Resolution 2 and Special 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 up to 430,490,762 Rights Shares at an issue price to be determined and fixed by the Board at a later date together with up to 215,245,381 detachable Warrants B on the basis of 1 Warrant B for every 2 Rights Shares subscribed 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 1 Rights Share for every 5 existing KNM Shares held;

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

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

THAT the Board be and is hereby authorised to issue and allot up to 16,013,094 additional warrants in KNM which were issued on 16 November 2012 and expiring on 15 November 2017 ("**Warrants A**") pursuant to the adjustments in accordance with the provisions of the Deed Poll dated 4 October 2012 ("**Deed Poll A**") as a result of the Proposed Rights Issue with Warrants ("**Additional Warrants A**") and up to 16,013,094 new KNM Shares to be issued arising from the exercise of the Additional Warrants A;

THAT the Board be and is hereby authorised to make the necessary adjustment to the existing exercise price and/or the number of Additional Warrants A to be issued in accordance with the Deed Poll A;

THAT the Board be and is hereby authorised to grant up to 11,074,934 additional KNM's Employees Share Option Scheme ("**ESOS**") options, based on the ESOS options granted to eligible employees of KNM and unexercised, of which 24,613,300 ESOS options were vested on 25 July 2014 and 185,645,600 ESOS options to be vested from 25 July 2015 up to 26 May 2022, pursuant to the adjustments in accordance with the provisions of the ESOS By Laws adopted by the Company on 15 May 2014 ("**ESOS By Laws**") as a result of the Proposed Rights Issue with Warrants ("**Additional ESOS Options**") and up to 11,074,934 new KNM Shares to be issued arising from the exercise of the Additional ESOS Options;

THAT the Board be and is hereby authorised to make the necessary adjustment to the existing exercise price and/or the number of Additional ESOS Options to be issued in accordance with the ESOS By Laws;

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

(a) determine the issue price Rights Shares after taking into consideration, amongst others, the theoretical ex-rights price of KNM Shares based on the 5-day volume weighted average market price ("**VWAP**") of KNM Shares prior to the price-fixing date to be determined later by the Board ("**Price-Fixing Date**");

(b) deal with any fractional entitlements that may arise from the Proposed Rights Issue with Warrants 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 B pursuant to the adjustments under the Deed Poll B ("**Additional Warrants B**") 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 B are entitled to subscribe as a consequence of the adjustments under the provisions in the Deed Poll B 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 B arising from the exercise of the Warrants B and the exercise of Additional Warrants B and all new KNM Shares to be issued whether upon the Proposed Rights Issue with Warrants or upon the exercise of the Warrants B and the exercise of Additional Warrants B 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 with Warrants or the exercise of the Warrants B and/or Additional Warrants B;

(e) enter into the Deed Poll B 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 B 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 with Warrants and/or the Rights Shares and all other documents, agreements and/or arrangements in connection with the underwriting of the Proposed Rights Issue with Warrants 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 with Warrants with full powers to assent to any condition, modification, variation and/or amendment to the terms of the Proposed Rights Issue with Warrants 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 with Warrants;

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 B and new KNM Shares to be issued pursuant to or in connection with the Proposed Rights Issue with Warrants have been duly allotted and issued in accordance with the terms of the Proposed Rights Issue with Warrants as well as the Additional Warrants B to be issued pursuant to the adjustments in accordance with the provisions of the Deed Poll B.

ORDINARY RESOLUTION 2

PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF KNM FROM RM1,125,000,000 COMPRISING 2,250,000,000 KNM SHARES TO RM2,500,000,000 COMPRISING 5,000,000,000 KNM SHARES ("PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL")

THAT, subject to the passing of Ordinary Resolution 1 and Special Resolution and the approvals of the relevant authorities (where required) being obtained, the authorised share capital of the Company be and is hereby increased from RM1,125,000,000 comprising 2,250,000,000 KNM Shares to RM2,500,000,000 comprising 5,000,000,000 KNM Shares by the creation of an additional 2,750,000,000 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 of Association of the Company and all other relevant documents be and are hereby amended accordingly.

ORDINARY RESOLUTION 3

PROPOSED GRANTING OF ESOS OPTIONS TO DATO' ADNAN BIN WAN MAMAT PURSUANT TO THE COMPANY'S EXISTING EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

THAT approval be and is hereby given for the Company to offer and to grant to Dato' Adnan Bin Wan Mamat, being the Independent Non-Executive Director of the Company, options to subscribe for such number of ordinary shares of the Company under the Company's ESOS **PROVIDED THAT** not more than 10% of the new ordinary shares of the Company available under the Company's ESOS shall be allocated to any individual eligible participant, who, either singly or collectively through persons connected with him/her, holds 20% or more of the issued and paid-up share capital of the Company (excluding treasury shares);

AND subject always to such terms and conditions of the Company's ESOS as may, from time to time, be modified, varied and/or amended in accordance with the provisions of the By-Laws governing and constituting the Company's ESOS.

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SPECIAL RESOLUTION

PROPOSED AMENDMENT TO THE MEMORANDUM OF ASSOCIATION OF KNM ("PROPOSED AMENDMENT")

THAT, subject to the passing of Ordinary Resolution 1 and Ordinary Resolution 2 and the approvals of the relevant authorities (where required) being obtained, approval be and is hereby given for the Memorandum of Association of the Company to be altered, modified, varied and deleted in the manner as described in Section 4 of the Circular to Shareholders dated 27 November 2014, and that any Director of KNM be and is hereby authorised to give effect to the Proposed Amendment 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 Amendment.

CERTIFIED BY

Director
LEE SWEE ENG

Secretary
LAU BEE GEE
[MAICSA 0817743]

Date: 19 DEC 2014

INFORMATION ON OUR COMPANY

1. HISTORY AND PRINCIPAL ACTIVITIES

Our Company was incorporated on 22 July 2000 as a private limited company under the name of KNM Group Sdn Bhd. Our Company was converted into a public company under its present name on 12 September 2000. It was listed on the Second Board of Bursa Securities on 11 August 2003 and was transferred to the Main Board of Bursa Securities (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 authorised and issued and paid-up share capital as at the LPD are as follows:-

	No. of KNM Shares	Par value (RM)	Total (RM)
Authorised	5,000,000,000	0.50	2,500,000,000
Issued and paid-up	1,639,035,652	0.50	819,517,826

As at the LPD, our Company hold 23,291,275 KNM Shares as treasury shares.

2.2. Changes in share capital

(i) Authorised share capital

The changes in our authorised share capital for the past 3 years prior to the LPD are as follows:-

Date of change	No. of KNM Shares created	Par Value (RM)	Description	Cumulative authorised share capital (RM)
20 September 2012	1,000,000,000	1.00	Increase in authorised share capital	2,250,000,000
30 April 2014	-	0.50	Par Value Reduction	1,125,000,000
19 December 2014	2,750,000,000	0.50	Increase in authorised share capital	2,500,000,000

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(ii) **Issued and paid-up 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 allotment	No. of KNM Shares allotted	Par Value (RM)	Type of issue	Cumulative issued and paid-up share capital (RM)
16 November 2012	488,920,659	1.00	Rights issue	1,490,013,252
30 April 2014	-	0.50	Par Value Reduction	745,006,626
28 May 2014	146,674,100	0.50	Private Placement	818,343,676
18 August 2014	979,300	0.50	ESOS option	818,833,326
18 September 2014	971,600	0.50	ESOS option	819,319,126
20 October 2014	281,600	0.50	ESOS option	819,459,926
13 November 2014	115,800	0.50	ESOS option	819,517,826

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3. SUBSTANTIAL SHAREHOLDERS

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

Minimum Scenario

	(I) As at LPD				(II) After (I) and the Rights Issue with Warrants			
	<----------Direct--------->		<---------Indirect-------->		<----------Direct--------->		<---------Indirect-------->	
	No. of KNM Shares	^[a]%	No. of KNM Shares	^[a]%	No. of KNM Shares	^[b]%	No. of KNM Shares	^[b]%
ILSE	22,069,641	1.37	[d]365,578,179	22.63	26,483,569	1.37	[d]438,693,815	22.63
GSL	7,296,250	0.45	[e]365,578,179	22.63	8,755,500	0.45	[e]438,693,815	22.63
Inter Merger	205,697,089	12.73	[f]70,000,000	4.33	246,836,507	12.73	[f]84,000,000	4.33

	After (II) and assuming full exercise of the Warrants B			
	<----------Direct--------->		<---------Indirect-------->	
	No. of KNM Shares	^[c]%	No. of KNM Shares	^[c]%
ILSE	28,690,533	1.37	[d]475,251,633	22.63
GSL	9,485,125	0.45	[e]475,251,633	22.63
Inter Merger	267,406,216	12.73	[f]91,000,000	4.33

Notes:-

^ *Excluding 23,291,275 treasury shares.*

(a) *Based on issued and paid-up share capital of 1,615,744,377 KNM Shares as at the LPD.*

(b) *Based on enlarged issued and paid-up share capital of 1,938,893,252 KNM Shares.*

(c) *Based on enlarged issued and paid-up share capital of 2,100,467,690 KNM Shares.*

(d) *Deemed interested by virtue of his indirect interest in Inter Merger (via Perkasa Sistem Sdn Bhd (**"Perkasa Sistem"**)), direct interest in Tegas Klasik, direct interest in Aveda and interest of his children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(e) *Deemed interested by virtue of her indirect interest in Inter Merger (via Perkasa Sistem) and interest of her spouse in Tegas Klasik, Aveda and interest of her children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(f) *Deemed interested by virtue of Inter Merger's financing transaction with Credit Suisse International.*

Maximum Scenario

	(I) As at LPD				(II) After (I) and assuming all treasury shares are resold and all of the outstanding Warrants A and ESOS options are exercised			
	<-----------Direct----------->		<---------Indirect--------->		<-----------Direct----------->		<----------Indirect--------->	
	No. of KNM Shares	^[a]%	No. of KNM Shares	^[a]%	No. of KNM Shares	[b]%	No. of KNM Shares	[b]%
ILSE	22,069,641	1.37	[e]365,578,179	22.63	34,449,196	1.60	[e]487,266,398	22.64
GSL	7,296,250	0.45	[f]365,578,179	22.63	11,880,100	0.55	[f]487,266,398	22.64
Inter Merger	205,697,089	12.73	[g]70,000,000	4.33	318,137,345	14.78	[g]70,000,000	3.25

	(III) After (II) and the Rights Issue with Warrants				After (III) and assuming full exercise of the Warrants B			
	<-----------Direct----------->		<---------Indirect--------->		<-----------Direct----------->		<----------Indirect--------->	
	No. of KNM Shares	[c]%	No. of KNM Shares	[c]%	No. of KNM Shares	[d]%	No. of KNM Shares	[d]%
ILSE	41,339,035	1.60	[e]584,719,678	22.64	44,783,955	1.60	[e]633,446,318	22.64
GSL	14,256,120	0.55	[f]584,719,678	22.64	15,444,130	0.55	[f]633,446,318	22.64
Inter Merger	381,764,814	14.78	[g]84,000,000	3.25	413,578,549	14.78	[g]91,000,000	3.25

Notes:-

^ *Excluding 23,291,275 treasury shares.*

(a) *Based on issued and paid-up share capital of 1,615,744,377 KNM Shares as at the LPD.*

(b) *Based on enlarged issued and paid-up share capital of 2,152,157,211 KNM Shares.*

(c) *Based on enlarged issued and paid-up share capital of 2,582,588,653 KNM Shares.*

(d) *Based on enlarged issued and paid-up share capital of 2,797,804,374 KNM Shares.*

(e) *Deemed interested by virtue of his indirect interest in Inter Merger (via Perkasa Sistem), direct interest in Tegas Klasik, direct interest in McDermott, direct interest in Aveda and interest of his children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(f) *Deemed interested by virtue of her indirect interest in Inter Merger (via Perkasa Sistem) and interest of her spouse in Tegas Klasik, McDermott, Aveda and interest of her children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(g) *Deemed interested by virtue of Inter Merger's financing transaction with Credit Suisse International.*

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
Dato' Ab Halim bin Mohyiddin *(Independent Non-Executive Chairman)*	Malaysian	69	No. 30 Jalan Kelab Golf 13/6 40000 Shah Alam Selangor Darul Ehsan	Company Director
Ir Lee Swee Eng *(Chief Executive Officer/Executive Director)*	Malaysian	59	72 Jalan Tropicana Utama Tropicana Golf & Country Resort 47400 Petaling Jaya Selangor Darul Ehsan	Company Director
Dato' Dr Khalid bin Ngah *(Senior Independent Non-Executive Director)*	Malaysian	68	18175, Jalan Melati Indah 1 Kemensah Heights 53100 Kuala Lumpur	Company Director
Dato' Adnan bin Wan Mamat *(Independent Non-Executive Director)*	Malaysian	54	13A-01, Block A 2Hampshire Persiaran Hampshire 50450 Ampang Kuala Lumpur	Company Director
Soh Yoke Yan *(Independent Non-Executive Director)*	Malaysian	47	15 Jalan Titian U8/42 Bukit Jelutong 40150 Shah Alam Selangor Darul Ehsan	Company Director
Gan Siew Liat *(Executive Director)*	Malaysian	54	72 Jalan Tropicana Utama Tropicana Golf & Country Resort 47400 Petaling Jaya Selangor Darul Ehsan	Company Director
Chew Fook Sin *(Executive Director)*	Malaysian	59	3A Jalan Awan Kelarai Taman Yarl 58200 Kuala Lumpur	Company Director

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4.2. DIRECTORS' SHAREHOLDINGS

For illustrative purposes only and on the assumption that our Directors subscribe for his/her respective entitlement to the Rights Shares and does not apply for additional Rights Share(s) in excess of his/her respective entitlement, our Directors' direct and indirect shareholdings in our Company before and after the Rights Issue with Warrants based on our Register of Directors as at the LPD are as follows:-

Minimum Scenario

	(I) As at the LPD				(II) After (I) and the Rights Issue with Warrants			
	<-----------Direct----------->		<----------Indirect---------->		<-----------Direct----------->		<----------Indirect--------->	
Directors	**No. of KNM Shares**	**^[a]%**	**No. of KNM Shares**	**^[a]%**	**No. of KNM Shares**	**^[b]%**	**No. of KNM Shares**	**^[b]%**
ILSE	22,069,641	1.37	[d]365,578,179	22.63	26,483,569	1.37	[d]438,693,815	22.63
GSL	7,296,250	0.45	[e]365,578,179	22.63	8,755,500	0.45	[e]438,693,815	22.63
Chew Fook Sin	3,585,950	0.22	[f]19,431,715	1.20	4,303,140	0.22	[f]23,318,058	1.20
Dato' Ab Halim bin Mohyiddin	2,043,750	0.13	-	-	2,452,500	0.13	-	-
Dato' Dr Khalid bin Ngah	-	-	-	-	-	-	-	-
Dato' Adnan bin Wan Mamat	-	-	-	-	-	-	-	-
Soh Yoke Yan	-	-	[g]100,000	0.01	-	-	[g]120,000	0.01

	After (II) and assuming full exercise of the Warrants B			
	<-----------Direct---------->		<----------Indirect--------->	
Directors	**No. of KNM Shares**	**^[c]%**	**No. of KNM Shares**	**^[c]%**
ILSE	28,690,533	1.37	[d]475,251,633	22.63
GSL	9,485,125	0.45	[e]475,251,633	22.63
Chew Fook Sin	4,661,735	0.22	[f]25,261,230	1.20
Dato' Ab Halim bin Mohyiddin	2,656,875	0.13	-	-
Dato' Dr Khalid bin Ngah	-	-	-	-
Dato' Adnan bin Wan Mamat	-	-	-	-
Soh Yoke Yan	-	-	[g]130,000	0.01

Notes:-

^ *Excluding 23,291,275 treasury shares.*

(a) *Based on issued and paid-up share capital of 1,615,744,377 KNM Shares as at the LPD.*

(b) *Based on enlarged issued and paid-up share capital of 1,938,893,252 KNM Shares.*

(c) *Based on enlarged issued and paid-up share capital of 2,100,467,690 KNM Shares.*

(d) *Deemed interested by virtue of his indirect interest in Inter Merger (via Perkasa Sistem), direct interest in Tegas Klasik, direct interest in Aveda and interest of his children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(e) *Deemed interested by virtue of her indirect interest in Inter Merger (via Perkasa Sistem) and interest of her spouse in Tegas Klasik, Aveda and interest of her children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(f) *Deemed interested by virtue of his interest of his spouse and children.*

(g) *Deemed interested by virtue of her interest of her spouse.*

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Maximum Scenario

	(I) As at the LPD				(II) After (I) and assuming all treasury shares are resold and all of the outstanding Warrants A and ESOS options are exercised			
	<----------Direct---------->		<----------Indirect---------->		<----------Direct---------->		<----------Indirect---------->	
Directors	No. of KNM Shares	^[a]%	No. of KNM Shares	^[a]%	No. of KNM Shares	[b]%	No. of KNM Shares	[b]%
ILSE	22,069,641	1.37	[e]365,578,179	22.63	34,449,196	1.60	[e]487,266,398	22.64
GSL	7,296,250	0.45	[f]365,578,179	22.63	11,880,100	0.55	[f]487,266,398	22.64
Chew Fook Sin	3,585,950	0.22	[g]19,431,715	1.20	7,599,700	0.35	[g]25,908,953	1.20
Dato' Ab Halim bin Mohyiddin	2,043,750	0.13	-	-	3,210,100	0.15	-	-
Dato' Dr Khalid bin Ngah	-	-	-	-	360,100	0.02	-	-
Dato' Adnan bin Wan Mamat	-	-	-	-	-	-	-	-
Soh Yoke Yan	-	-	[h]100,000	0.01	360,100	0.02	[h]100,000	*

	(III) After (II) and the Rights Issue with Warrants				After (III) and assuming full exercise of the Warrants B			
	<----------Direct---------->		<----------Indirect---------->		<----------Direct---------->		<----------Indirect---------->	
	No. of KNM Shares	[c]%	No. of KNM Shares	[c]%	No. of KNM Shares	[d]%	No. of KNM Shares	[d]%
ILSE	41,339,035	1.60	[e]584,719,678	22.64	44,783,955	1.60	[e]633,446,318	22.64
GSL	14,256,120	0.55	[f]584,719,678	22.64	15,444,130	0.55	[f]633,446,318	22.64
Chew Fook Sin	9,119,640	0.35	[g]31,090,744	1.20	9,879,610	0.35	[g]33,681,639	1.20
Dato' Ab Halim bin Mohyiddin	3,852,120	0.15	-	-	4,173,130	0.15	-	-
Dato' Dr Khalid bin Ngah	432,120	0.02	-	-	468,130	0.02	-	-
Dato' Adnan bin Wan Mamat	-	-	-	-	-	-	-	-
Soh Yoke Yan	432,120	0.02	[h]120,000	*	468,130	0.02	[h]130,000	*

Notes:-

^ *Excluding 23,291,275 treasury shares.*

* *Negligible.*

(a) *Based on issued and paid-up share capital of 1,615,744,377 KNM Shares as at the LPD.*

(b) *Based on enlarged issued and paid-up share capital of 2,152,157,211 KNM Shares.*

(c) *Based on enlarged issued and paid-up share capital of 2,582,588,653 KNM Shares.*

(d) *Based on enlarged issued and paid-up share capital of 2,797,804,374 KNM Shares.*

(e) *Deemed interested by virtue of his indirect interest in Inter Merger (via Perkasa Sistem), direct interest in Tegas Klasik, direct interest in McDermott, direct interest in Aveda and interest of his children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(f) *Deemed interested by virtue of her indirect interest in Inter Merger (via Perkasa Sistem) and interest of her spouse in Tegas Klasik, McDermott, Aveda and interest of her children. Inter Merger is wholly-owned by Perkasa Sistem, which in turn is owned by ILSE and GSL.*

(g) *Deemed interested by virtue of his interest of his spouse and children.*

(h) *Deemed interested by virtue of her interest of her spouse.*

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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	RM1,600,000,000	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, licence and trademark and business development services to international related companies and related international investments.
KNM Capital Sdn Bhd	24 April 2006/ Malaysia	RM17,500,000	100	Provision of funding and treasury services to its related companies.
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 process technology for the biofuels and seeds extraction plants, provision of turnkey services, including operation and maintenance services for biofuels and seeds extraction plants and related investments in the renewable energy industries.
KNM Capital Labuan Limited	14 March 2008/ Labuan	USD1	100	Provision of funding and treasury services to its related companies.
Litwin Asia Pacific Sdn Bhd	27 January 2010/ Malaysia	RM1,000,000	51	Dormant
KNM Eurasia Sdn Bhd	28 February 1992/ Malaysia	RM100,000	100	Investment holding
KNM HMS Energy Sdn Bhd	11 December 2012/ Malaysia	RM1,000,000	70	Dormant

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Prestige International Ltd	4 February 2013/ Labuan	USD1	100	Dormant
Splendid Investments Limited	10 November 2014/ Labuan	SGD1	100	Dormant
Subsidiaries of KNM Process Systems Sdn Bhd				
KNM OGPET (East Coast) Sdn Bhd	30 May 1994/ Malaysia	RM1,000,000	100	Property investment
Duraton Engineering Sdn Bhd	14 November 2000/ Malaysia	RM2	100	Provision of non-destructive testing 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 project management and technical services.
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, specialised 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, financing, marketing and business development services to the related companies of KNM Group in Europe.
KNM Borsig Services Sdn Bhd *(formerly known as Borsig Industrial Services Sdn Bhd)*	8 June 1990/ Malaysia	RM1,000,000	100	Contractor for oil and gas industry and the provision of technical services.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Borsig Boiler Systems Sdn Bhd	5 July 2006/ Malaysia	RM8,000,000	100	Sales and marketing, design, fabrication and manufacturing of high capacity industrial boilers, heat recovery steam generators and waste heat boilers for oil, gas, petrochemicals, mineral processing and energy industries
Deutsche KNM GmbH	8 May 2008/ Germany	EUR25,000	100	Investment holding
KNM OGPET (Sabah) Sdn Bhd	23 March 2011/ Malaysia	RM1,000	80	Investment holding
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 and provision of management and consultancy services.
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	Ceased operations.
CNI Engineering & Construction Malaysia Sdn Bhd *(formerly known as KNM-CIW Sdn Bhd)*	31 January 2007/ Malaysia	RM1,000,000	70	Dormant
PT KPE Industries	13 June 2007[3]/ Indonesia	USD500,000	100	An assets holding company and shall own the land, manufacturing plant and machinery in relation to our Group's intended manufacturing facility at the Kabil Industrial Estate in Batam, Indonesia

[3] *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.
FBM – KNM FZCO	1 November 1990/ United Arab Emirates	AED64,800,000	100	Provision of manufacture of air cooled heat exchangers, shell and tube heat exchangers, process gas waste heat recovery systems, heavy duty heat exchangers, columns, towers, reactors and other pressure vessels for the oil, gas, petrochemicals and desalination industries.
Subsidiaries of KNM Eurasia Sdn Bhd				
KNM Process Systems (Kazakhstan) Sdn Bhd	16 February 2005/ Malaysia	RM2	100	Dormant
KNM Process 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	Investment holding
Subsidiary of KMK Power Sdn Bhd				
Poplar Investments Limited	19 August 2010/ Isle of Man	GBP1	100	Property investment

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.
KNM Corporation	12 January 2007/ Canada	CAD3,500,000	100	Investment holding
KNM Project Services Limited	7 February 2011/ United Kingdom	GBP10,000	100	Project management and services and provision of process technology for oil and gas, biomass, biofuels, waste to energy and power plants as well as provision of turnkey services including operation and maintenance services.
KNM Technical Services LLC	14 March 2012/ Uzbekistan	USD126,089.17[4]	100	Provision of project management services, engineering, designing, operations and maintenance services for the oil, gas, petrochemicals, mineral, power, environmental, renewable energy and biotechnology industries.
FBM Icoss S.r.l.	7 March 1974/ Italy	EUR10,000	100	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.
Subsidiary of Deutsche KNM GmbH				
BORSIG Beteiligungsverwaltungsgesellschaft mbH	15 June 2006/ Germany	EUR100,000	100	Investment holding

4 *Represents the chartered capital of the company.*

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Subsidiary of KNM DP-Fabricators Sdn Bhd				
KNM-DP Harta Bina Sdn Bhd	24 September 1994/ Malaysia	RM200,000	93	Dormant
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.
Subsidiaries of KNM Corporation				
KNM Industries Inc.	12 January 2007/ Canada	CAD3,500,000	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.
KNM Process Equipment Inc.	12 January 2007/ Canada	CAD10	100	Design, manufacture, procurement and manufacturing of process equipment, including without limitation, pressure vessels, reactors, columns 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 minerals processing industries in Canada and the North America region.

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
KPS Inc.	20 February 2008/ Canada	CAD10	100	Investment holding
Subsidiary of BORSIG Beteiligungsverwaltungs gesellschaft 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 KNM Process Equipment Inc.				
1840355 Alberta Ltd	11 August 2014/ Canada	CAD1	100	Investment holding
Subsidiary of KPS Inc.				
KPS Technology & Engineering LLC	1 February 2008/ United State of America	USD1,800,000[5]	94.44[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.
KPS Technology Group LLC	2 January 2013/ United State of America	USD2[7]	100[8]	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.

5 *Represents the cash capital contributions made by certain members of the company.*
6 *Represents the membership interest held by KPS Inc. in KPS Technology & Engineering LLC.*
7 *Represents the cash capital contributions made by certain members of the company.*
8 *Represents the membership interest held by KPS Inc. in KPS Technology Group LLC.*

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
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.
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 machines 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	Develops, produces and distributes valves, compressor parts, monitoring systems for compressors, provision of maintenance and repair works of compressors and other components

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
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

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 services 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
Verwater KNM Sdn Bhd	11 August 1992/ Malaysia	RM750,000	50	Dormant
Petrosab Petroleum Sdn Bhd	20 October 2010/ Malaysia	RM100,000	40	Investment holdings and management

Name	Date/Place of incorporation	Issued and paid-up capital	Effective equity interest (%)	Principal activities
Subsidiary of Petrosab Petroleum Sdn Bhd				
Petrosab Petroleum Engineering Sdn Bhd *(formerly known as KNM Petrosab Engineering Sdn Bhd)*	20 October 2010/ Malaysia	RM12,000,000	52	Operate the business of providing services relating to the arrangement of design, engineering, procurement, construction testing and other kinds of services relating to oil, gas, petrochemical, minerals, biofuel and energy industries.

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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 years up to FYE 31 December 2013 and the unaudited quarterly results for FYE 31 December 2014 are summarised as follows:-

	Audited FYE 31 December			Unaudited FYE
	2011	2012	2013	31 December 2014
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	1,963,778	2,386,251	1,984,006	1,865,131
Cost of sales	(1,776,612)	(1,985,084)	(1,628,290)	(1,440,355)
Gross profit	**187,166**	**401,167**	**355,716**	**424,776**
Administration expenses	(216,001)	(216,445)	(211,219)	(228,843)
Other income	27,460	36,133	46,687	80,714
Other operating expenses	(105,469)	(83,736)	(92,521)	(97,244)
Results from operating activities	**(106,844)**	**137,119**	**98,663**	**179,403**
Finance cost	(52,190)	(53,445)	(53,302)	(53,092)
Finance income	3,632	3,758	2,700	2,996
Impairment of goodwill	-	-	-	(6,672)
Share of (loss)/profit of equity-accounted associates/ joint venture, net of tax	(480)	(144)	(3,504)	804
PBT	(155,882)	87,288	44,557	123,439
Tax expenses	62,100	63,666	(26,591)	(80,184)
Profit from continuing operation	**(93,782)**	**150,954**	**17,966**	**43,255**
Discontinued operation				
Gain/(loss) from discontinued operation, net of tax	-	(80,608)	1,942	-
Profit for the year	**(93,782)**	**70,346**	**19,908**	**43,255**
Profit/(loss) attributable to owners of the Company	(91,766)	72,283	23,450	45,690
Profit/(loss) attributable to non-controlling interests	(2,016)	(1,937)	(3,542)	(2,435)
Profit for the year	**(93,782)**	**70,346**	**19,908**	**43,255**
Earnings before interest, taxation, depreciation and amortisation	(13,094)	232,421	197,060	275,082
Gross profit margin (%)	9.5%	16.8%	17.9%	22.8%
Net profit margin (%)	(4.8%)	3.0%	1.0%	2.3%
Number of KNM Shares in issue ('000)	1,001,093	1,490,014	1,490,014	1,639,036
Basic/Diluted EPS (sen)	(9.38)	6.96	1.60	2.94
Gross dividend per KNM Share (sen)	-	-	-	-

Commentaries:

(i) FYE 31 December 2012

For FYE 31 December 2012, our Group's consolidated revenue increased by approximately 21.94% or RM0.43 billion to approximately RM2.39 billion as compared to RM1.96 billion recorded in FYE 31 December 2011 as a result of the increase in revenue mainly for Asia and Oceania segments. The increase in revenue for Asia and Oceania segments was mainly due to recognition of higher stage of project progress particularly for the Lukoil project in Uzbekistan coupled with better project margin contribution during the financial year.

In tandem with the increase in revenue, our Group recorded a consolidated PAT of approximately RM70.35 million for FYE 31 December 2012 as compared to a loss of RM93.78 million in FYE 31 December 2011 due to higher profit contribution by all segments, namely Asia and Oceania, Europe and America. The increase in profits for all segments was mainly due to higher project progress recognition and better project margin contribution as mentioned above during the financial year.

(ii) FYE 31 December 2013

For FYE 31 December 2013, our Group's consolidated revenue decreased by approximately 17.15% or RM0.41 billion to approximately RM1.98 billion as compared to RM2.39 billion recorded in FYE 31 December 2012 as a result of the decrease in revenue for Asia and Oceania and Europe segments. The decrease in revenue for the aforementioned was mainly due to lower project progress recognition during the financial year.

In tandem with the decrease in revenue, our Group recorded a consolidated PAT of approximately RM19.91 million for FYE 31 December 2013 as compared to RM70.35 million in FYE 31 December 2012 due to the decrease in profit contributions by the segments, namely Europe and America. The decrease in profits for the segments was mainly due to lower recognition of project progress as mentioned above during the financial year. The decrease in the consolidated PAT was also due to one-off provision of late delivery charges of approximately RM9.66 million and share of losses from associates/joint venture companies of RM3.50 million during the financial year. Notwithstanding the above, during the 3rd quarter of FYE 31 December 2013, our Group had disposed its Brazilian entities which were weighing down our Group's financial performance due to their poor performance. The disposal of the Brazilian entities registered a gain of approximately RM11.81 million. With the disposal of the Brazilian entities, our Group is expected to be able to further strengthen and focus its financial and operational resources on other endeavours which are expected to benefit our Group moving forward.

(iii) FYE 31 December 2014

For FYE 31 December 2014, our Group's consolidated revenue decreased slightly by approximately 6.00% or RM0.12 billion as a result of the decrease in revenue for Asia and Oceania segment. The decrease in revenue for Asia and Oceania segment was mainly due to lower project progress recognition.

Although with lower consolidated revenue recognised, our Group has recorded higher consolidated PAT of approximately RM43.26 million for FYE 31 December 2014 as compared to RM19.91 million in FYE 31 December 2013. This was due to the increase in EBITDA margin and overall profit contributions by all the segments, namely Asia and Oceania, Europe & America.

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 March 2014 to February 2015 are as follows:-

	High (RM)	Low (RM)
2014		
March	0.81	0.62
April	0.94	0.77
May	0.84	0.71
June	0.92	0.74
July	1.10	0.90
August	1.14	0.95
September	1.03	0.82
October	0.96	0.69
November	0.82	0.55
December	0.55	0.40
2015		
January	0.64	0.43
February	0.75	0.61
The last transacted market price of KNM Shares on 16 October 2014 (being the Market Day immediately prior to the announcement of the Rights Issue with Warrants on 17 October 2014)		0.70
The last transacted market price of KNM on the Price-Fixing Date		0.71
The last transacted market price of KNM Shares as at the LPD		0.71
The last transacted market price of KNM Shares on 24 March 2015 (being the Market Day prior to the ex-date for the Rights Issue with Warrants on 25 March 2015)		0.60

(Source: Bloomberg)

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The Board of Directors
KNM Group Berhad
15, Jalan Dagang SB 4/1
Taman Sungai Besi Indah
43300 Seri Kembangan
Selangor Darul Ehsan

19 March 2015

KNM Group Berhad ("KNM" or "the Company")
Report on the compilation of pro forma financial information as at 31 December 2013

We have completed our assurance engagement to report on the compilation of pro forma financial information of the Company and its subsidiaries ("the Group") by the Board of Directors of KNM Group Berhad. The pro forma financial information consists of the pro forma consolidated statements of financial position as at 31 December 2013 and related notes as attached to this report that have been stamped by us for identification purposes. The applicable criteria on the basis of which the Board of Directors has compiled the pro forma financial information are described in the notes to the pro forma financial information.

The pro forma financial information has been compiled by the Board of Directors to illustrate the impact of the Rights Issue with Warrants as stated in Appendix I on the Group's financial position as at 31 December 2013 as if the Rights Issue with Warrants had taken place at that date. As part of this process, information about the Group's financial position have been extracted by the Board of Directors from the Group's financial statements for the year ended 31 December 2013, on which an audit report has been published.

Board of Directors' Responsibility for the Pro Forma Financial Information

The Board of Directors of the Company is responsible for compiling the pro forma financial information on the basis as set out in the notes.

Our Responsibilities

Our responsibility is to express an opinion about whether the pro forma financial information have been compiled, in all material respects, by the Board of Directors on the basis of the Rights Issue with Warrants as set out in the notes.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE) 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants ("MIA"). This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors of the Company has compiled, in all material respects, the pro forma financial information on the basis as set out in the notes.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information is solely to illustrate the impact of the Rights Issue with Warrants as stated in Appendix I on the unadjusted financial information of the Group as if the Rights Issue with Warrants had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Rights Issue with Warrants would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors of the Company in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

a) The related pro forma adjustments give appropriate effect to those criteria; and

b) The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Group, the transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

KNM Group Berhad
Report on the compilation of pro forma financial information as at 31 December 2013
19 March 2015

Opinion

In our opinion,

a) the pro forma financial information have been properly compiled, in all material respects, on the basis stated in the notes to the pro forma consolidated statements of financial position using the audited financial statements of the Group for the year ended 31 December 2013 prepared in accordance with the approved accounting standards as defined in the Financial Reporting Act 1997 and in a manner consistent with the format of the financial statements and the accounting policies adopted by the Group. We draw attention to the auditors' report for the audited financial statements for the year ended 31 December 2013 which included an emphasis of matter paragraph. Without qualifying the auditors' opinion, the emphasis of matter paragraph highlighted that the projected future taxable profit supporting the recognition of the deferred tax assets is subject to significant risk and uncertainties. In the projection of future taxable profits, the assumptions used included future events that may not necessarily occur. Actual results could be significantly different from the Directors' estimate of future profitability since anticipated events may not occur as expected and the variation could be material. Hence, uncertainties exist and any significant variation in these assumptions may result in a change in the extent of the deferred tax assets/tax benefits recognised in the statement of financial position and statements of profit or loss; and

b) each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position is appropriate for the purposes of preparing the pro forma financial information.

Other matters

This letter is prepared at your request for the purpose of illustrating the effects of the Rights Issue with Warrants as stated in Appendix I to the unadjusted financial information of the Group as at and for the year ended 31 December 2013. It is not intended to be used for any other purposes. We do not assume responsibility to any other person for the content of this report.

Yours faithfully

KPMG	**Chan Kam Chiew**
Firm Number: AF 0758	Approval Number: 2055/06/16(J)
Chartered Accountants	Chartered Accountant

Appendix I – Pro Forma Financial Information

Appendix II – Pro forma consolidated statements of financial position

Appendix III – Notes to the pro forma consolidated statements of financial position

Appendix I
Page 1 of 2

KNM Group Berhad ("KNM" or "the Company") Pro Forma Financial Information of KNM Group Berhad and its subsidiaries

The pro forma financial information, comprising the consolidated statements of financial position of KNM and its subsidiaries ("hereinafter collectively referred to as KNM Group"), set out below are provided for illustrative purposes, only to show the effects on the audited consolidated statements of financial position of the KNM Group as at and for the year ended 31 December 2013 had the Rights Issue with Warrants as described below had been effected and completed on the date, and should be read in conjunction with the accompanying notes.

The pro forma consolidated statements of financial position are presented taking into account the renounceable rights issue of up to 430,431,442 new ordinary shares of RM0.50 each in KNM ("Rights Shares") on the basis of one (1) Rights Share for every five (5) existing shares of KNM shares held as at 5.00pm on 27 March 2015 together with up to 215,215,721 new free detachable warrants ("Warrants B") on the basis of one (1) Warrant B for every two (2) Rights Shares subscribed for ("Rights Issue with Warrants").

The proforma consolidated statements of financial position have not included the effects of the announcement made on 13 March 2015, whereby, KNM's wholly owned subsidiary, KNM Renewable Energy Sdn. Bhd. ("KNMRE") entered into a Sales and Purchase Agreement ("SPA") on 12 March 2015 with FE Global/Asia Clean Energy Services Fund L.P., FEGACE Asia Sub-Fund, L.P., and Global Clean Energy Corp. SPC (collectively referred to as the "Vendors") to acquire the entire equity interest in ABL Bio-Fuels Limited and Asia Biofuels II Limited, which owns a combined 72% equity interest in Impress Ethanol Co., Ltd and 49% equity interest in Impress Farming Co., Ltd, for a total consideration of USD24.0 million (equivalent to RM88.49 million based on the exchange rate of USD1:RM3.687) ("hereinafter referred to as the "Proposed Acquisition").

Pursuant to the SPA, the consideration shall be satisfied in full by:

(i) cash payment of USD12.0 million ("Initial Cash Consideration") within 3 market days upon satisfaction of the conditions precedent and completion of all the completion obligations per the SPA; and
(ii) the issuance of new KNM Shares representing USD12.0 million ("Consideration Shares") within 90 days from the date of payment of the Initial Cash Consideration. (The number and issue price of the Consideration Shares shall be determined at the time of settlement of the consideration and shall be priced at a 10% discount to the 5-day weighted average price for trades done on Bursa Securities prior to the issuance). In the event KNMRE fails to pay the Consideration Shares within the aforementioned period, KNMRE shall pay USD12.0 million in cash to the Vendors instead.

As at the date of the Abridged Prospectus ("AP"), the parties to the SPA have yet to fulfil all the conditions precedent as stipulated in the SPA.

KNM Group Berhad ("KNM" or "the Company") Pro Forma Financial Information of KNM Group Berhad and its subsidiaries

Based on the above, upon the conditions precedent being fulfilled and completion of the Proposed Acquisition, the Proposed Acquisition will affect KNM Group as follows:-

i) The Initial Cash Consideration will be funded via internally generated funds and/or borrowings. In the event the Initial Cash Consideration is settled via:-
   a) bank borrowings, the Proposed Acquisition is expected to have an effect on the consolidated NA per Share in view of interest cost on the bank borrowings and gearing of the KNM Group; or
   b) internally generated funds, the Proposed Acquisition is not expected to have any material effect on the consolidated NA per Share and gearing of the KNM Group. This is expected to affect the cash and bank balances of the KNM Group.

   The effects of the Proposed Acquisition on the consolidated NA per Share and gearing cannot be determined at this juncture as it is dependent on whether the KNM Group utilises internally generated funds and/or bank borrowings to settle the Initial Cash Consideration upon satisfaction of the conditions precedent and completion of all the Vendors' completion obligations as stipulated in the SPA.

ii) With regards to the Consideration Shares,
   a) in the event the Proposed Acquisition is partially settled via new issuance of KNM Shares (equivalent to the sum of USD12 million), this will affect the share capital of KNM. Accordingly, the equity interest of the existing shareholders of KNM will be diluted. The quantum of dilution cannot be determined at this juncture as this will be dependent on the issue price of the Consideration Shares and the number of Consideration Shares to be issued upon completion of the Proposed Acquisition; or
   b) should the Consideration Shares be satisfied in cash instead, the Proposed Acquisition is not expected to affect the share capital of KNM. However, a cash settlement is expected to affect the cash and bank balances and/or borrowings/gearing of the KNM Group.

   Hence, the effects of the Proposed Acquisition cannot be determined at this juncture as it is dependent on the fulfillment of conditions precedents and whether the KNM Group will issue KNM Shares or pay in cash for the balance of the consideration.

KNM GROUP BERHAD ("KNM" or "the Company")
AND ITS SUBSIDIARIES ("KNM Group")
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

The pro forma consolidated statements of financial position of the KNM Group as at 31 December 2013 as set out below are provided for illustrative purposes only to show the effects had the Rights Issue with Warrants referred to in Appendix I taken place as at 31 December 2013.

i) Minimum scenario

	Note	Audited as at 31 December 2013 RM'000	Pro forma I RM'000	Pro forma II RM'000	Pro forma III RM'000
ASSETS					
Property and equipment		834,794	834,794	834,794	834,794
Goodwill		830,048	830,048	830,048	830,048
Other intangible assets		588,901	588,901	588,901	588,901
Investments in associates		30	30	30	30
Investments in joint ventures		4,561	4,561	4,561	4,561
Other investments		12,758	12,758	12,758	12,758
Deferred tax assets		370,248	370,248	370,248	370,248
TOTAL NON-CURRENT ASSETS		2,641,340	2,641,340	2,641,340	2,641,340
Inventories		77,905	77,905	77,905	77,905
Other investments		5,287	5,287	5,287	5,287
Current tax assets		41,600	41,600	41,600	41,600
Trade and other receivables		1,002,921	1,002,921	1,002,921	1,002,921
Derivative financial assets		6,531	6,531	6,531	6,531
Cash and cash equivalents	2.3.1	268,301	315,372	356,346	517,920
TOTAL CURRENT ASSETS		1,402,545	1,449,616	1,490,590	1,652,164
TOTAL ASSETS		4,043,885	4,090,956	4,131,930	4,293,504
EQUITY					
Share capital	2.3.2	1,445,033	774,538	908,644	1,016,899
Share premium	2.3.3	16,707	790,155	785,855	866,642
Treasury shares	2.3.4	(53,390)	(53,403)	(53,403)	(53,403)
Revaluation reserve		35,609	35,609	35,609	35,609
Translation reserve		(343,480)	(343,480)	(343,480)	(343,480)
Hedging reserve		323	323	323	323
ESOS reserve	2.3.5	-	12,034	12,034	12,034
Warrant reserve	2.3.6	44,981	44,981	72,449	44,981
Retained profits	2.3.7	913,972	901,069	901,069	901,069
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		2,059,755	2,161,826	2,319,100	2,480,674
Non-controlling interests		(156)	(156)	(156)	(156)
TOTAL EQUITY		2,059,599	2,161,670	2,318,944	2,480,518

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Appendix II
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KNM GROUP BERHAD ("KNM" or "the Company")
AND ITS SUBSIDIARIES ("KNM Group")
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

i) Minimum scenario (continued)

	Note	Audited as at 31 December 2013 RM'000	Pro forma I RM'000	Pro forma II RM'000	Pro forma III RM'000
LIABILITIES					
Loan and borrowings	2.3.8	454,263	399,263	282,963	282,963
Long term payables		52,819	52,819	52,819	52,819
Long service leave liability		2,324	2,324	2,324	2,324
Deferred tax liabilities		233,050	233,050	233,050	233,050
TOTAL NON-CURRENT LIABILITIES		742,456	687,456	571,156	571,156
Loan and borrowings		492,758	492,758	492,758	492,758
Current tax liabilities		709	709	709	709
Deferred income		216,653	216,653	216,653	216,653
Trade and other payables		527,193	527,193	527,193	527,193
Derivative financial liabilities		4,517	4,517	4,517	4,517
TOTAL CURRENT LIABILITIES		1,241,830	1,241,830	1,241,830	1,241,830
TOTAL LIABILITIES		1,984,286	1,929,286	1,812,986	1,812,986
TOTAL EQUITY AND LIABILITIES		4,043,885	4,090,956	4,131,930	4,293,504
Number of KNM shares in issue less treasury shares ('000)		1,466,743	1,615,745	1,938,894	2,100,468
Total borrowings (RM'000)		947,021	892,021	775,721	775,721
Net assets # per KNM share (RM)		1.40	1.34	1.20	1.18

Notes

Net assets are defined as total equity attributable to owners of the Company

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KNM GROUP BERHAD ("KNM" or "the Company")
AND ITS SUBSIDIARIES ("KNM Group")
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

ii) Maximum scenario

	Note	Audited as at 31 December 2013 RM'000	Pro forma I RM'000	Pro forma II RM'000	Pro forma III RM'000	Pro forma IV RM'000
ASSETS						
Property and equipment		834,794	834,794	834,794	834,794	834,794
Goodwill		830,048	830,048	830,048	830,048	830,048
Other intangible assets		588,901	588,901	588,901	588,901	588,901
Investments in associates		30	30	30	30	30
Investments in joint ventures		4,561	4,561	4,561	4,561	4,561
Other investments		12,758	12,758	12,758	12,758	12,758
Deferred tax assets		370,248	370,248	370,248	370,248	370,248
TOTAL NON-CURRENT ASSETS		2,641,340	2,641,340	2,641,340	2,641,340	2,641,340
Inventories		77,905	77,905	77,905	77,905	77,905
Other investments		5,287	5,287	5,287	5,287	5,287
Current tax assets		41,600	41,600	41,600	41,600	41,600
Trade and other receivables		1,002,921	1,002,921	1,002,921	1,002,921	1,002,921
Derivative financial assets		6,531	6,531	6,531	6,531	6,531
Cash and cash equivalents	3.4.1	268,301	315,372	855,202	910,218	1,125,434
TOTAL CURRENT ASSETS		1,402,545	1,449,616	1,989,446	2,044,462	2,259,678
TOTAL ASSETS		4,043,885	4,090,956	4,630,786	4,685,802	4,901,018
EQUITY						
Share capital	3.4.2	1,445,033	774,538	1,076,079	1,254,708	1,398,903
Share premium	3.4.3	16,707	790,155	1,047,442	1,042,242	1,149,850
Treasury shares	3.4.4	(53,390)	(53,403)	-	-	-
Revaluation reserve		35,609	35,609	35,609	35,609	35,609
Translation reserve		(343,480)	(343,480)	(343,480)	(343,480)	(343,480)
Hedging reserve		323	323	323	323	323
ESOS reserve	3.4.5	-	12,034	3,080	3,080	3,080
Warrant reserve	3.4.6	44,981	44,981	-	36,587	-
Retained profits	3.4.7	913,972	901,069	882,603	882,603	882,603
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		2,059,755	2,161,826	2,701,656	2,911,672	3,126,888
Non-controlling interests		(156)	(156)	(156)	(156)	(156)
TOTAL EQUITY		2,059,599	2,161,670	2,701,500	2,911,516	3,126,732

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KNM GROUP BERHAD ("KNM" or "the Company")
AND ITS SUBSIDIARIES ("KNM Group")
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

ii) Maximum scenario (continued)

	Note	Audited as at 31 December 2013 RM'000	Pro forma I RM'000	Pro forma II RM'000	Pro forma III RM'000	Pro forma IV RM'000
LIABILITIES						
Loan and borrowings	3.4.8	454,263	399,263	399,263	244,263	244,263
Long term payables		52,819	52,819	52,819	52,819	52,819
Long service leave liability		2,324	2,324	2,324	2,324	2,324
Deferred tax liabilities		233,050	233,050	233,050	233,050	233,050
TOTAL NON-CURRENT LIABILITIES		742,456	687,456	687,456	532,456	532,456
Loan and borrowings		492,758	492,758	492,758	492,758	492,758
Current tax liabilities		709	709	709	709	709
Deferred income		216,653	216,653	216,653	216,653	216,653
Trade and other payables		527,193	527,193	527,193	527,193	527,193
Derivative financial liabilities		4,517	4,517	4,517	4,517	4,517
TOTAL CURRENT LIABILITIES		1,241,830	1,241,830	1,241,830	1,241,830	1,241,830
TOTAL LIABILITIES		1,984,286	1,929,286	1,929,286	1,774,286	1,774,286
TOTAL EQUITY AND LIABILITIES		4,043,885	4,090,956	4,630,786	4,685,802	4,901,018
Number of KNM shares in issue less treasury shares ('000)		1,466,743	1,615,745	2,152,156	2,582,589	2,797,803
Total borrowings (RM'000)		947,021	892,021	892,021	737,021	737,021
Net assets # per KNM share (RM)		1.40	1.34	1.26	1.13	1.12

Notes

\# Net assets are defined as total equity attributable to owners of the Company

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KNM GROUP BERHAD ("KNM" or "the Company")
AND ITS SUBSIDIARIES ("KNM Group")
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

Notes to the pro forma consolidated statements of financial position

1. Basis of preparation

The pro forma consolidated statements of financial position have been properly prepared in accordance with the basis stated below using financial statements prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with both the format of the financial statements and the accounting policies of the KNM Group as disclosed in its audited financial statements for the financial year ended 31 December 2013.

The pro forma consolidated statements of financial position do not include the effects of the adoption of Malaysian Financial Reporting Standards and International Financial Reporting Standards which are effective for the annual period beginning on or after 1 January 2014.

The consolidated statements of financial position have been prepared solely for illustrative purposes, to show the effects of the major events as described below and in Note 2 and Note 3 respectively.

1.1 Pro forma I

Pro forma I incorporated the effects of the following events:

(a) Par value reduction of KNM Shares from RM1.00 to RM0.50 per share pursuant to Section 64 of the Companies Act, 1965 which was completed on 30 April 2014. Pursuant to the Par Value Reduction, the share capital of the Company had been reduced from RM1,490,013,252 comprising 1,490,013,252 ordinary shares of RM1.00 each in KNM to RM745,006,626 comprising 1,490,013,252 ordinary shares of RM0.50 each in KNM (" KNM Shares").

(b) Private placement of 146,674,100 new KNM Shares at RM0.70 per KNM Share which was completed on 30 May 2014 ("Private Placement"). Pursuant to the Private Placement, cash and cash equivalents, share capital and share premium account increased by approximately RM102,672,000, RM73,338,000 and RM29,334,000 respectively. The share issuance expense of RM2,138,000 was debited to the share premium account;

The proceeds from the Private Placement was utilised in the following manner:-

	RM'000
Repayment of bank borrowings	55,000
Working capital	45,534
Expenses for the Private Placement	2,138
	102,672

KNM GROUP BERHAD ("KNM" or "the Company")
AND ITS SUBSIDIARIES ("KNM Group")
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

Notes to the pro forma consolidated statements of financial position

1.1 Pro forma I (continued)

(c) Purchase of 20,000 KNM treasury shares of RM0.50 each from 30 May 2014 to 1 December 2014 from the open market at a cost of approximately RM13,000; and

(d) On 25 July 2014, KNM granted a total of 212,491,400 options to its employees under the KNM Employee Share Option Scheme ("ESOS"), to be vested equally over 8 years and subject to the personal performance of the grantee on an annual review. The fair value assigned to the ESOS of RM0.37 each was determined using the "Black Scholes" pricing model based on the relative fair values of ESOS extracted from Bloomberg as at 25 July 2014.

Of the 212,491,400 ESOS granted during the year, only 26,845,800 ESOS are vested on 25 July 2014. RM13,837,000 is recognised as the fair value of the ESOS granted as "ESOS reserve" (i.e. the fair value assigned to the ESOS granted).

As at 31 December 2014, KNM has issued 2,348,300 new KNM Shares pursuant to the ESOS at an exercise price of RM0.66 per share totalling approximately RM1,550,000 resulting in an increase in cash and cash equivalents, share capital and share premium account of approximately RM1,550,000, RM1,174,000 and RM1,245,000 respectively and a reduction to "ESOS reserve" of RM869,000.

The fair value of the ESOS was reassessed based on the ESOS outstanding as at 31 December 2014, the "true-up" of approximately RM934,000 was transferred to retained earnings.

2. Minimum scenario

2.1 Pro forma II

The pro forma II is stated after pro forma I as disclosed in Note 1.1 above and incorporated the effects of up to 323,148,875 new KNM Shares to be issued on the basis of one (1) Rights Share for every five (5) existing KNM shares (at an indicative issue price of RM0.50 per Rights Share) at an entitlement date to be determined later together with 161,574,438 free detachable warrants (hereinafter referred to as "Warrants B") on the basis of one (1) Warrant B for every two (2) Rights Shares subscribed for ("Rights Issue with Warrants") and on the assumption that the Rights Issue with Warrants is fully subscribed.

"Warrant reserve" represents the value assigned to the warrants. The fair value of the Warrants B of approximately RM0.17 each is determined using the "Black Scholes" pricing model based on the relative fair values of the KNM shares and the warrants as at 27 February 2015.

The proceeds from the Rights Issue with Warrants will be utilised in the following manner:-

	RM'000
Repayment of bank borrowings	116,300
Working capital	40,974
Estimated expense for the Rights Issue of Shares with Warrants	4,300
	161,574

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2. Minimum scenario (continued)

2.1 Pro forma II (continued)

This resulted in an increase in cash and cash equivalents and share capital of approximately RM161,574,000 respectively. The estimated expenses in relation to the Rights Issue with Warrants of RM4,300,000 will be debited to the share premium account.

As the above variables are subject to change upon the implementation of the Rights Issue with Warrants as described above, the actual quantum of the components of the "Warrant reserve" will only be determined upon the issuance of the Warrants B. As such, the actual quantum may differ from the amount computed above.

With the issuance of 161,574,438 Warrants B pursuant to the Rights Issue with Warrants, KNM has recognised the fair values of the Warrants of RM27,468,000 based on the basis as described above and debited to "Warrant reserve account".

2.2 Pro forma III

The pro forma III is stated after pro forma II as disclosed in Note 2.1 above and assuming the full exercise of the Warrants B into 161,574,438 new KNM shares at an indicative exercise price of RM1.00 each which will result in the increase in cash and cash equivalents, share capital and share premium account of approximately RM161,574,000, RM80,787,000 and RM80,787,000 respectively, and reversal of the "Warrant reserve" of approximately RM27,468,000 to be credited to the share capital account.

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2. Minimum scenario (continued)

2.3 Effects on the pro forma consolidated statements of financial position (minimum scenario)

2.3.1 Movements in cash and cash equivalents

	RM'000
Balance as at 31 December 2013	**268,301**
Effects incorporated to arrive at Pro forma I:-	
- Proceeds from issuance of new KNM Shares via the Private Placement	102,672
- Repayment of bank borrowings	(55,000)
- Payment of expenses for the Private Placement	(2,138)
- Purchase of treasury shares	(13)
- Allotment of 2,348,300 new KNM Shares pursuant to the exercise of ESOS	1,550
Pro forma I	**315,372**
Pro forma I and the effects of the following:-	
- Proceeds from issuance of new KNM Shares via the Rights Issue with Warrants	161,574
- Repayment of bank borrowings	(116,300)
- Payment of expenses in relation to the Rights Issue with Warrants	(4,300)
Pro forma II	**356,346**
Pro forma II and the effect of the following:-	
- Proceeds from the issuance of new KNM Shares pursuant to the exercise of Warrants B	161,574
Pro forma III	**517,920**

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Notes to the pro forma consolidated statements of financial position

2. Minimum scenario (continued)

2.3 Effects on the pro forma consolidated statements of financial position (minimum scenario) (continued)

2.3.2 Movements in share capital

	RM'000
Balance as at 31 December 2013	**1,445,033**
Effects incorporated to arrive at Pro forma I:-	
- Par value reduction	(745,007)
- Issuance of new KNM Shares via the Private Placement	73,338
- Allotment of 2,348,300 new KNM Shares pursuant to the exercise of ESOS	1,174
Pro forma I	**774,538**
Pro forma I and the effects of the following:-	
- Issuance of new KNM Shares via the Rights Issue with Warrants	161,574
- Allocation of fair value of Warrants B to "Warrant reserve"	(27,468)
Pro forma II	**908,644**
Pro forma II and the effects of the following:-	
- Issuance of new KNM Shares pursuant to the exercise of the Warrants B	80,787
- Transfer from "Warrant reserve" upon exercise of Warrants B	27,468
Pro forma III	1,016,899

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3. Minimum scenario (continued)

2.3 Effects on the pro forma consolidated statements of financial position (minimum scenario) (continued)

2.3.3 Movements in share premium

	RM'000
Balance as at 31 December 2013	**16,707**
Effects incorporated to arrive at Pro forma I:-	
- Par value reduction	745,007
- Issuance of new KNM Shares via the Private Placement	29,334
- Private Placement expenses	(2,138)
- Allotment of 2,348,300 new KNM Shares pursuant to the exercise of ESOS	376
Inclusive of reversal of ESOS reserve to share premium upon the exercise of the ESOS	869
Pro forma I	**790,155**
Pro forma I and the effects of the following:-	
- Estimated expenses in relation to the Rights Issue with Warrants	(4,300)
Pro forma II	**785,855**
Pro forma II and the effect of the following:-	
- Issuance of new KNM Shares pursuant to the exercise of the Warrants B	80,787
Pro forma III	**866,642**

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2. Minimum scenario (continued)

2.3 Effects on the pro forma consolidated statements of financial position (minimum scenario) (continued)

2.3.4 Movements in treasury shares

	RM'000
Balance as at 31 December 2013	**53,390**
Effect incorporated to arrive at Pro forma I, II and III:-	
- Purchase of treasury shares	13
Pro forma I, II and III	**53,403**

2.3.5 Movements in ESOS reserve

	RM'000
Balance as at 31 December 2013	-
Effects incorporated to arrive at Pro forma I, II and III:-	
- Allocation of fair value of ESOS from retained profits	13,837
- Reversal of ESOS reserve to share premium upon the allotment of the new KNM Shares pursuant to the ESOS	(869)
- Reassessment of ESOS reserve as at 31 December 2014 to retained profits	(934)
Pro forma I, II and III	**12,034**

2.3.6 Movements in warrant reserve

	RM'000
Balance as at 31 December 2013 and Pro forma I	**44,981**
Pro forma I and the effect of the following:-	
- Allocation of fair value of Warrants B from share capital	27,468
Pro forma II	**72,449**
Pro forma II and the effect of the following:-	
- Transfer to share capital upon exercise of Warrants B	(27,468)
Pro forma III	**44,981**

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2. Minimum scenario (continued)

2.3 Effects on the pro forma consolidated statements of financial position (minimum scenario) (continued)

2.3.7 Movements in retained profits

	RM'000
Balance as at 31 December 2013	**913,972**
Effect incorporated to arrive at Pro forma I, II and III:-	
- Allocation of fair value of ESOS to ESOS reserve	(13,837)
- Reassessment of ESOS as at 31 December 2014	934
Pro forma I, II and III	**901,069**

2.3.8 Movements in long term loan and borrowings

	RM'000
Balance as at 31 December 2013	**454,263**
Effect incorporated to arrive at Pro forma I:-	
- Repayment of bank borrowings	(55,000)
Pro forma I	**399,263**
Pro forma I and the effect of the following:-	
- Repayment of bank borrowings	(116,300)
Pro forma II and III	**282,963**

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Notes to the pro forma consolidated statements of financial position

3. Maximum scenario

3.1 Pro forma II

The pro forma II is stated after pro forma I as disclosed in Note 1.1 above and incorporating the effects of the following events:-

(a) Issuance of 24,200,900 new KNM Shares assuming full exercise of the ESOS granted and vested on 25 July 2014 at an exercise price of RM0.66 per share totalling RM15,973,000 resulting in an increase in cash and cash equivalents, share capital and share premium account of approximately RM15,973,000, RM12,100,000 and RM12,827,000 respectively and a reduction to "ESOS reserve" of RM8,954,000. The remaining 185,645,600 ESOS granted are not assumed to be exercised in view that it has not been vested on 25 July 2014; and

(b) Issuance of 488,920,659 new KNM Shares assuming full exercise of the Warrants 2012/2017 (hereinafter referred to as "Warrants A") at an exercise price of RM1.00 per share totalling RM488,920,000 resulting in an increase in cash and cash equivalents, share capital and share premium account of approximately RM488,920,000, RM244,460,000 and RM244,460,000 respectively and a reduction to "Warrant reserve" of RM44,981,000 to be credited to share capital account.

(c) 23,291,275 treasury shares assumed to be sold at RM1.50 per share totalling RM34,937,000 resulting in a decrease to retained profits of approximately RM18,466,000 due to a loss arising from the sale of the treasury shares.

3.2 Pro forma III

The pro forma III is stated after pro forma II as disclosed in Note 3.1 above and incorporating the effect of up to 430,431,442 new KNM Shares to be issued on the basis of one (1) Rights Share for every five (5) existing KNM Shares (at an indicative issue price of RM0.50 per Rights Share) at an entitlement date to be determined later together with 215,215,721 detachable warrants on the basis of one (1) Warrant B for every two (2) Rights Shares subscribed for and assumed that the Rights Issue with Warrants is fully subscribed.

"Warrant reserve" represents the value assigned to the warrants. The fair value of the Warrants B of approximately RM0.17 each is determined using the "Black Scholes" pricing model based on the relative fair values of the KNM shares and the warrants as at 27 February 2015.

The proceeds from the Rights Issue with Warrants will be utilised in the following manner:-

	RM'000
Repayment of bank borrowings	155,000
Working capital	55,016
Estimated expense for the Rights Issue of Shares with Warrants	5,200
	215,216

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3. Maximum scenario (continued)

3.2 Pro forma III (continued)

This resulted in an increase in cash and cash equivalents and share capital of approximately RM215,216,000 respectively. The estimated expenses in relation to the Rights Issue with Warrants of RM5,200,000 will be debited to the share premium account.

As the above variables are subject to change upon the implementation of the Rights Issue with Warrants as described above, the actual quantum of the components of the warrant reserve will only be determined upon the issuance of the Warrants B. As such, the actual quantum may differ from the amount computed above.

With the issuance of 215,215,721 Warrants B pursuant to the Rights Issue with Warrants, KNM has recognised the fair values of the Warrants B of RM36,587,000 based on the basis as described above and debited to "Warrant reserves account".

3.3 Pro forma IV

The pro forma IV is stated after pro forma III as disclosed in Note 3.2 above and assuming the full exercise of the Warrants B into 215,215,721 new KNM shares at an indicative exercise price of RM1.00 each which results in the increase in cash and cash equivalents, share capital and share premium account of approximately RM215,216,000, RM107,608,000 and RM107,608,000 respectively, and reversal of the "Warrant reserve" of approximately RM36,587,000 to be credited to the share capital account.

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Notes to the pro forma consolidated statements of financial position

3. Maximum scenario (continued)

3.4 Effects on the pro forma consolidated statements of financial position (maximum scenario)

3.4.1 Movements in cash and cash equivalents

	RM'000
Balance as at 31 December 2013	**268,301**
Effects incorporated to arrive at Pro forma I:-	
- Proceeds from issuance of new KNM Shares via the Private Placement	102,672
- Repayment of bank borrowings	(55,000)
- Payment of expenses for the Private Placement	(2,138)
- Purchase of treasury shares	(13)
- Allotment of 2,348,300 new KNM Shares pursuant to the exercise of ESOS	1,550
Pro forma I	**315,372**
Pro forma I and the effects of the following:-	
- Allotment of 24,200,900 new KNM Shares pursuant to the exercise of ESOS	15,973
- Proceeds from issuance of new KNM Shares pursuant to the exercise of the Warrants A	488,920
- Sale of treasury shares	34,937
Pro forma II	**855,202**
Pro forma II and the effects of the following:-	
- Proceeds from issuance of new KNM Shares via the Rights Issue with Warrants	215,216
- Repayment of bank borrowings	(155,000)
- Payment of expenses in relation to the Rights Issue with Warrants	(5,200)
Pro forma III	**910,218**
Pro forma III and the effect of the following:-	
- Proceeds from the issuance of new KNM Shares pursuant to the exercise of Warrants B	215,216
Pro forma IV	**1,125,434**

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3. Maximum scenario (continued)

3.4 Effects on the pro forma consolidated statements of financial position (maximum scenario) (continued)

3.4.2 Movements in share capital

	RM'000
Balance as at 31 December 2013	**1,445,033**
Effects incorporated to arrive at Pro forma I:-	
- Par value reduction	(745,007)
- Issuance of new KNM Shares via the Private Placement	73,338
- Allotment of 2,348,300 new KNM Shares pursuant to the exercise of ESOS	1,174
Pro forma I	**774,538**
Pro forma I and the effects of the following:-	
- Allotment of 24,200,900 new KNM Shares pursuant to the exercise of ESOS	12,100
- Issuance of new KNM Shares pursuant to the exercise of Warrants A	244,460
- Transfer from "Warrant reserve" upon exercise of Warrants A	44,981
Pro forma II	**1,076,079**
Pro forma II and the effects of the following:-	
- Issuance of new KNM Shares via the Rights Issue with Warrants	215,216
- Allocation of fair value of Warrants B to "Warrant reserve"	(36,587)
Pro forma III	**1,254,708**
Pro forma III and the effects of the following:-	
- Issuance of new KNM Shares pursuant to the exercise of the Warrants B	107,608
- Transfer from "Warrant reserve" upon exercise of Warrants B	36,587
Pro forma IV	**1,398,903**

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4. Maximum scenario (continued)

3.4 Effects on the pro forma consolidated statements of financial position (maximum scenario) (continued)

3.4.3 Movements in share premium

	RM'000
Balance as at 31 December 2013	**16,707**
Effects incorporated in arriving at Pro forma I:-	
- Par value reduction	745,007
- Issuance of new KNM Shares via the Private Placement	29,334
- Private Placement expenses	(2,138)
- Allotment of 2,348,300 new KNM Shares pursuant to the exercise of ESOS	376
Inclusive of reversal of ESOS reserve to share premium upon the exercise of the ESOS	869
Pro forma I	**790,155**
Pro forma I and the effects of the following:-	
- Allotment of 24,200,900 new KNM Shares pursuant to the exercise of ESOS	3,873
- Inclusive of reversal of ESOS reserve to share premium upon the exercise of the ESOS	8,954
- Issuance of new KNM Shares pursuant to the exercise of Warrants A	244,460
Pro forma II	**1,047,442**
Pro forma II and the effects of the following:-	
- Estimated expenses in relation to the Rights Issue with Warrants	(5,200)
Pro forma III	**1,042,242**
Pro forma III and the effect of the following:-	
- Issuance of new KNM Shares pursuant to the exercise of the Warrants B	107,608
Pro forma IV	**1,149,850**

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3. Maximum scenario (continued)

3.4 Effects on the pro forma consolidated statements of financial position (maximum scenario) (continued)

3.4.4 Movements in treasury shares

	RM'000
Balance as at 31 December 2013	**53,390**
Effect incorporated to arrive at Pro forma I:-	
- Purchase of treasury shares	13
Pro forma I	**53,403**
Pro forma I and the effect of the following:-	
- Sale of treasury shares	(53,403)
Pro forma II, III and IV	**-**

3.4.5 Movements in ESOS reserve

	RM'000
Balance as at 31 December 2013	-
Effects incorporated to arrive at Pro forma I:-	
- Allocation of fair value of ESOS from retained profits	13,837
- Reversal of ESOS reserve to share premium upon the allotment of the new KNM Shares pursuant to the ESOS	(869)
- Reassessment of ESOS reserve as at 31 December 2014 to retained profits	(934)
Pro forma I	**12,034**
Pro forma I and the effect of the following:-	
- Reversal of ESOS reserve to share premium upon the allotment of the new KNM Shares pursuant to the ESOS	(8,954)
Pro forma II, III and IV	**3,080**

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3. Maximum scenario (continued)

3.4 Effects on the pro forma consolidated statements of financial position (maximum scenario) (continued)

3.4.6 Movements in warrant reserve

	RM'000
Balance as at 31 December 2013 and Pro forma I	**44,981**
Pro forma I and the effect of the following:-	
- Transfer to share capital upon exercise of Warrants A	(44,981)
Pro forma II	-
Pro forma II and the effect of the following:-	
- Allocation of fair value of Warrants B from share capital	36,587
Pro forma III	**36,587**
Pro forma III and the effect of the following:-	
- Transfer to share capital upon exercise of Warrants B	(36,587)
Pro forma IV	-

3.4.7 Movements in retained profits

	RM'000
Balance as at 31 December 2013	**913,972**
Effect incorporated to arrive at Pro forma I:-	
- Allocation of fair value of ESOS to ESOS reserve	(13,837)
- Reassessment of ESOS reserve as at 31 December 2014	934
Pro forma I	**901,069**
Pro forma I and the effect of the following:-	
- Loss on sale of treasury shares	(18,466)
Pro forma II, III and IV	**882,603**

3.4.8 Movements in long term loan and borrowings

	RM'000
Balance as at 31 December 2013	**454,263**
Effect incorporated to arrive at Pro forma I and II:-	
- Repayment of bank borrowings	(55,000)
Pro forma I and II	**399,263**
Pro forma II and the effect of the following:-	
- Repayment of bank borrowings	(155,000)
Pro forma III and IV	**244,263**

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