KNM Group Berhad

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

and its subsidiaries

Financial statements for the year ended 31 December 2013

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

Directors' report for the year ended 31 December 2013

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

Principal activities

The Company is principally engaged in investment holding and provision of management services, whilst the principal activities of the subsidiaries are as stated in Note 32 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	23,450	2,391
Non-controlling interests	(3,542)	-
	19,908	2,391

Reserves and provisions

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

Dividends

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

Directors of the Company

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

Lee Swee Eng
Dato' Ab. Halim bin Mohyiddin
Dato' Dr Khalid bin Ngah
Gan Siew Liat
Chew Fook Sin
Soh Yoke Yan
Dato' Haji Wan Adnan bin Wan Mamat (appointed on 24 April 2014)

Directors' interests

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

	Number of ordinary shares of RM1.00 each			
	At 1.1.2013	**Bought**	**Sold**	**At 31.12.2013**
Shareholdings in which Directors have direct interests in the Company				
Dato' Ab. Halim bin Mohyiddin	2,043,750	-	-	2,043,750
Lee Swee Eng	22,069,641	-	-	22,069,641
Gan Siew Liat	6,296,250	-	-	6,296,250
Chew Fook Sin	4,585,950	-	(500,000)	4,085,950
Shareholdings in which Directors have indirect interests in the Company				
Lee Swee Eng	351,278,179	160,000,000	(160,000,000)	351,278,179
Gan Siew Liat	351,278,179	160,000,000	(160,000,000)	351,278,179
Chew Fook Sin	24,941,090	500,000	-	25,441,090

Directors' interests (continued)

	Number of warrants over the ordinary shares of RM1.00 each			
	At 1.1.2013	Bought	Sold	At 31.12.2013
Warrantholdings in which Directors have direct interests in the Company				
Dato' Ab. Halim bin Mohyiddin	681,250	-	-	681,250
Lee Swee Eng	9,643,455	-	-	9,643,455
Gan Siew Liat	2,098,750	-	-	2,098,750
Chew Fook Sin	1,528,650	-	-	1,528,650
Warrantholdings in which Directors have indirect interests in the Company				
Lee Swee Eng	121,400,619	-	-	121,400,619
Gan Siew Liat	121,400,619	-	-	121,400,619
Chew Fook Sin	5,980,363	-	-	5,980,363

	Number of ordinary shares of USD1.00 each			
	At 1.1.2013	Bought	Sold	At 31.12.2013
Shareholdings in which a Director has direct interest in a subsidiary - KPS Technology & Engineering LLC				
Lee Swee Eng	100,000	-	-	100,000

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

None of the other Directors holding office at 31 December 2013 had any interest in the ordinary shares and warrants of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Directors of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salaries of full time employees of the Company or of related corporation) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a corporation in which the Director has a substantial financial interest, other than as disclosed in Note 28 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the warrants issued in prior year.

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

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

Share buy-back

On 27 June 2013, the shareholders of the Company renewed the Company's plan to repurchase its own shares as disclosed in Note 15 to the financial statements.

During the financial year, the Company repurchased 10,000 of its issued ordinary shares of RM1.00 each listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM0.47 per share. The total consideration paid was RM4,737 including transaction costs of RM87. The repurchase transactions were financed by internally generated funds. The shares repurchased are retained as treasury shares. None of the treasury shares held were resold or cancelled during the financial year.

As at 31 December 2013, the Company held 23,271,275 ordinary shares of RM1.00 each as treasury shares out of its total issued and paid-up share capital. Hence, the number of outstanding shares in issue and paid-up after deducting treasury shares as at 31 December 2013 is 1,466,741,977 ordinary shares of RM1.00 each. The treasury shares have no rights to voting, dividends or participation in other distribution.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

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

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

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

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

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

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

In the opinion of the Directors, except for the discontinued Brazil operation through equity disposal (Note 22), the financial performance of the Group and of the Company for the financial year ended 31 December 2013 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Significant events during the year

The significant events during the year are as disclosed in Note 35 to the financial statements.

Subsequent events

The significant subsequent events are as disclosed in Note 36 to the financial statements.

Auditors

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

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

....

Dato' Ab. Halim bin Mohyiddin

....

Lee Swee Eng

Kuala Lumpur,

Date: 30 April 2014

KNM Group Berhad

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

and its subsidiaries

Statements of financial position as at 31 December 2013

	Note	Group 31.12.2013 RM'000	Group 31.12.2012 RM'000	Group 1.1.2012 RM'000	Company 31.12.2013 RM'000	Company 31.12.2012 RM'000	Company 1.1.2012 RM'000
Assets							
Property, plant and equipment	3	834,794	866,533	761,983	-	-	-
Goodwill	4	830,048	743,975	787,883	-	-	-
Other intangible assets	4	588,901	559,670	594,641	-	-	-
Interests in subsidiaries	5	-	-	-	1,717,147	1,661,423	1,611,333
Investments in associates	6	30	24	35	-	-	-
Investments in joint ventures	7	4,561	7,394	5,882	40	40	40
Other investments	8	12,758	14,183	14,088	-	-	-
Deferred tax assets	9	370,248	364,634	279,922	-	8	119
Amount due from a subsidiary	10	-	-	-	-	301,140	351,330
Total non-current assets		2,641,340	2,556,413	2,444,434	1,717,187	1,962,611	1,962,822
Inventories	11	77,905	76,811	72,120	-	-	-
Other investments	8	5,287	-	-	-	-	-
Current tax assets		41,600	38,148	30,969	-	-	-
Trade and other receivables	12	1,002,921	978,370	955,337	291,369	350,495	16,838
Derivative financial assets	13	6,531	9,668	20,268	-	-	-
Cash and bank balances	14	268,301	191,910	418,586	26,617	17,830	622
Total current assets		1,402,545	1,294,907	1,497,280	317,986	368,325	17,460
Total assets		4,043,885	3,851,320	3,941,714	2,035,173	2,330,936	1,980,282
Equity							
Share capital		1,445,033	1,445,033	1,001,093	1,445,033	1,445,033	1,001,093
Share premium		16,707	16,707	319,426	16,707	16,707	319,426
Treasury shares		(53,390)	(53,385)	(53,371)	(53,390)	(53,385)	(53,371)
Reserves		651,405	411,935	341,764	97,483	95,092	13,104
Total equity attributable to owners of the Company	15	2,059,755	1,820,290	1,608,912	1,505,833	1,503,447	1,280,252
Non-controlling interests		(156)	4,245	7,029	-	-	-
Total equity		2,059,599	1,824,535	1,615,941	1,505,833	1,503,447	1,280,252

Statements of financial position as at 31 December 2013
(continued)

	Note	Group 31.12.2013 RM'000	Group 31.12.2012 RM'000	Group 1.1.2012 RM'000	Company 31.12.2013 RM'000	Company 31.12.2012 RM'000	Company 1.1.2012 RM'000
Liabilities							
Loans and borrowings	16	454,263	104,838	366,390	-	-	250,950
Long term payables	17	52,819	21,418	20,702	525,296	483,941	-
Long service leave liability		2,324	2,841	2,366	-	-	-
Deferred tax liabilities	9	233,050	229,288	239,838	-	-	-
Total non-current liabilities		742,456	358,385	629,296	525,296	483,941	250,950
Loans and borrowings	16	492,758	831,597	777,894	-	301,140	100,380
Current tax liabilities		709	6,283	6,075	512	583	199
Deferred income	18	216,653	237,762	390,160	-	-	-
Trade and other payables	19	527,193	583,943	500,994	3,532	41,794	348,026
Derivative financial liabilities	13	4,517	8,815	21,354	-	31	475
Total current liabilities		1,241,830	1,668,400	1,696,477	4,044	343,548	449,080
Total liabilities		1,984,286	2,026,785	2,325,773	529,340	827,489	700,030
Total equity and liabilities		4,043,885	3,851,320	3,941,714	2,035,173	2,330,936	1,980,282

The notes on pages 18 to 130 are an integral part of these financial statements.

KNM Group Berhad

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

and its subsidiaries

Statements of profit or loss and other comprehensive income for the year ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Continuing operations					
Revenue					
Contract revenue		1,984,006	2,386,158	-	-
Sales of goods and services		-	93	-	-
Management fees		-	-	5,305	7,894
Dividend income		-	-	-	34,000
		1,984,006	2,386,251	5,305	41,894
Cost of sales					
Contract costs recognised as an expense		(1,628,290)	(1,985,005)	-	-
Cost of goods sold and services		-	(79)	-	-
		(1,628,290)	(1,985,084)	-	-
Gross profit		355,716	401,167	5,305	41,894
Administration expenses		(211,219)	(216,445)	(5,273)	(4,784)
Other income		46,687	36,133	265	559
Other operating expenses		(92,521)	(83,736)	(2,121)	(1,095)
Results from operating activities		98,663	137,119	(1,824)	36,574
Finance costs	20	(53,302)	(53,445)	(16,864)	(21,176)
Finance income		2,700	3,758	22,518	23,218
Share of loss of equity-accounted associates/joint venture, net of tax		(3,504)	(144)	-	-
Profit before tax		44,557	87,288	3,830	38,616
Tax expense	21	(26,591)	63,666	(1,439)	(1,609)
Profit from continuing operations		17,966	150,954	2,391	37,007
Discontinued operation					
Gain/(Loss) from discontinued operation, net of tax	22	1,942	(80,608)	-	-
Profit for the year	23	19,908	70,346	2,391	37,007

Statements of profit or loss and other comprehensive income for the year ended 31 December 2013

(continued)

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Profit for the year		19,908	70,346	2,391	37,007
Items that are or may be reclassified subsequently to profit or loss					
Cash flow hedge		2,157	3,338	-	-
Foreign currency translation differences for foreign operations		156,743	(14,842)	-	-
Foreign currency translation differences for discontinued foreign operations		9,024	9,255	-	-
Hedge of net investment in subsidiary		46,450	(45,423)		-
Fair value of available-for-sale financial assets		-	(30)	-	-
Share of gain/(loss) of equity-accounted - associates/joint venture		487	(239)	-	-
Other comprehensive income/(expense) for the year, net of tax		214,861	(47,941)	-	-
Total comprehensive income for the year		234,769	22,405	2,391	37,007
Profit attributable to:					
Owners of the Company		23,450	72,283	2,391	37,007
Non-controlling interests		(3,542)	(1,937)	-	-
Profit for the year		19,908	70,346	2,391	37,007
Total comprehensive income attributable to:					
Owners of the Company		239,470	25,190	2,391	37,007
Non-controlling interests		(4,701)	(2,785)	-	-
Total comprehensive income for the year		234,769	22,405	2,391	37,007
Basic/Diluted earnings/(loss) per ordinary share (sen)					
from continuing operations		1.47	14.72		
from discontinued operations		0.13	(7.76)		
	24	1.60	6.96		

The notes on pages 18 to 130 are an integral part of these financial statements.

KNM Group Berhad
(Company No. 521348-H)
(Incorporated in Malaysia)
and its subsidiaries
Statement of changes in equity for the year ended 31 December 2013

	← Attributable to owners of the Company →											
	← Non-distributable →								Distributable			
Group	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Hedging reserve RM'000	Fair value reserve RM'000	Warrant reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling Interest RM'000	Total equity RM'000
At 1 January 2012	1,001,093	319,426	(53,371)	40,231	(506,942)	(5,172)	30	-	813,617	1,608,912	7,029	1,615,941
Foreign currency translation differences for foreign operations	-	-	-	-	(4,739)	-	-	-	-	(4,739)	(848)	(5,587)
Hedge of net investment	-	-	-	-	(45,423)	-	-	-	-	(45,423)	-	(45,423)
Fair value of available-for-sale financial assets	-	-	-	-	-	-	(30)	-	-	(30)	-	(30)
Cash flow hedge	-	-	-	-	-	3,338	-	-	-	3,338	-	3,338
Share of other comprehensive income of equity accounted investees	-	-	-	-	(239)	-	-	-	-	(239)	-	(239)
Other comprehensive income for the year	-	-	-	-	(50,401)	3,338	(30)	-	-	(47,093)	(848)	(47,941)
Profit for the year	-	-	-	-	-	-	-	-	72,283	72,283	(1,937)	70,346
Total comprehensive income for the year	-	-	-	-	(50,401)	3,338	(30)	-	72,283	25,190	(2,785)	22,405
- Issue of ordinary shares pursuant to Rights Issue	488,921	(293,352)	-	-	-	-	-	-	-	195,569	-	195,569
- Allocation of warrants reserve	(44,981)	-	-	-	-	-	-	44,981	-	-	-	-
- Share issue expenses	-	(9,367)	-	-	-	-	-	-	-	(9,367)	-	(9,367)
- Acquisition of equity interest in subsidiary	-	-	-	-	-	-	-	-	-	-	1	1
- Share buy-back	-	-	(14)	-	-	-	-	-	-	(14)	-	(14)
Total transactions with owners of the Company	443,940	(302,719)	(14)	-	-	-	-	44,981	-	186,188	1	186,189
At 31 December 2012	1,445,033	16,707	(53,385)	40,231	(557,343)	(1,834)	-	44,981	885,900	1,820,290	4,245	1,824,535
	Note 15.1		Note 15.2	Note 15.3	Note 15.4	Note 15.5	Note 15.6	Note 15.7	Note 15.8			

Statement of changes in equity for the year ended 31 December 2013

(continued)

	Attributable to owners of the Company											
	Non-distributable								*Distributable*			
Group	**Share capital RM'000**	**Share premium RM'000**	**Treasury shares RM'000**	**Revaluation reserve RM'000**	**Translation reserve RM'000**	**Hedging reserve RM'000**	**Fair value reserve RM'000**	**Warrant reserve RM'000**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling Interest RM'000**	**Total equity RM'000**
At 1 January 2013	1,445,033	16,707	(53,385)	40,231	(557,343)	(1,834)	-	44,981	885,900	1,820,290	4,245	1,824,535
Foreign currency translation differences for foreign operations	-	-	-	-	166,926	-	-	-	-	166,926	(1,159)	165,767
Hedge of net investment	-	-	-	-	46,450	-	-	-	-	46,450	-	46,450
Cash flow hedge	-	-	-	-	-	2,157	-	-	-	2,157	-	2,157
Share of other comprehensive income of equity accounted investees	-	-	-	-	487	-	-	-	-	487	-	487
Other comprehensive income for the year	-	-	-	-	213,863	2,157	-	-	-	216,020	(1,159)	214,861
Profit for the year	-	-	-	-	-	-	-	-	23,450	23,450	(3,542)	19,908
Total comprehensive income for the year	-	-	-	-	213,863	2,157	-	-	23,450	239,470	(4,701)	234,769
- Increase in share capital of subsidiary	-	-	-	-	-	-	-	-	-	-	300	300
- Share buy-back	-	-	(5)	-	-	-	-	-	-	(5)	-	(5)
- Realisation of revaluation reserve on disposal of subsidiaries	-	-	-	(4,622)	-	-	-	-	4,622	-	-	-
Total transactions with owners of the Company	-	-	(5)	(4,622)	-	-	-	-	4,622	(5)	300	295
At 31 December 2013	1,445,033	16,707	(53,390)	35,609	(343,480)	323	-	44,981	913,972	2,059,755	(156)	2,059,599
	Note 15.1		Note 15.2	Note 15.3	Note 15.4	Note 15.5	Note 15.6	Note 15.7	Note 15.8			

The notes on pages 18 to 130 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2013
(continued)

	Attributable to owners of the Company					
	Non-distributable				*Distributable*	
Company	**Share capital RM'000**	**Share premium RM'000**	**Treasury shares RM'000**	**Warrant reserve RM'000**	**Retained earnings RM'000**	**Total RM'000**
At 1 January 2012	1,001,093	319,426	(53,371)	-	13,104	1,280,252
Profit for the year/Total comprehensive income for the year	-	-	-	-	37,007	37,007
- Issue of ordinary shares pursuant to Rights Issue	488,921	(293,352)	-	-	-	195,569
- Allocation of fair value of warrants	(44,981)	-	-	44,981	-	-
- Share issue expenses	-	(9,367)	-	-	-	(9,367)
- Share buy-back	-	-	(14)	-	-	(14)
Total transactions with owners of the Company	443,940	(302,719)	(14)	44,981	-	186,188
At 31 December 2012/1 January 2013	1,445,033	16,707	(53,385)	44,981	50,111	1,503,447
Profit for the year/Total comprehensive income for the year	-	-	-	-	2,391	2,391
- Share buy-back	-	-	(5)	-	-	(5)
Total transactions with owners of the Company	-	-	(5)	-	-	(5)
At 31 December 2013	1,445,033	16,707	(53,390)	44,981	52,502	1,505,833
	Note 15.1		Note 15.2	Note 15.7	Note 15.8	

The notes on pages 18 to 130 are an integral part of these financial statements.

KNM Group Berhad

(Company No. 521348-H)
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Statements of cash flows for the year ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from operating activities					
Profit/(Loss) before tax:					
Continuing operations		44,557	87,288	3,830	38,616
Discontinued operations		1,942	(75,994)	-	-
		46,499	11,294	3,830	38,616
Adjustments for:					
Amortisation of intangible assets		34,562	32,743	-	-
Depreciation of property, plant and equipment		11,656	11,624	-	-
Dividend Income		-	-	-	(34,000)
Loss on disposal of property, plant and equipment		2,091	1,101	-	-
Gain on foreign exchange - unrealised		(81,652)	(5,130)	-	-
Interest expenses		48,633	48,571	16,783	19,491
Interest income		(2,700)	(3,758)	(22,518)	(23,218)
Impairment loss on goodwill		-	29,557	-	-
Provision for foreseeable losses		987	13,565	-	-
Share of loss of equity-accounted associates/joint venture, net of tax		3,504	144	-	-
Change in fair value of forward contract		1,185	3,336	(31)	(444)
Gain on disposal of subsidiaries		(11,810)	-	-	-
Impairment of other investments		3,339	1,389	-	-
Impairment of property, plant and equipment		1,958	4,500	-	-
Impairment loss of investment in subsidiaries		-	-	-	100
Impairment loss of amount due from subsidiaries		-	-	1,908	284
Operating profit/(loss) before changes in working capital		58,252	148,936	(28)	829
Changes in working capital:					
Inventories		(1,508)	(4,691)	-	-
Trade and other receivables		100,274	12,296	(142)	1,733
Trade and other payables		(845)	(56,346)	1,884	37,518
Cash generated from operations		156,173	100,195	1,714	40,080

Statements of cash flows for the year ended 31 December 2013

(continued)

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from operating activities (continued)					
Tax paid		(24,299)	(48,678)	(1,503)	(1,114)
Interest paid		(2,216)	(3,438)	-	-
Interest received		2,700	3,758	22,518	23,218
Net cash generated from operating activities		132,358	51,837	22,729	62,184
Cash flows from investing activities					
Acquisition of other intangible assets		(1,102)	(8,012)	-	-
Acquisition of property, plant and equipment	(ii)	(8,005)	(49,167)	-	-
Acquisition of subsidiaries, net of cash acquired	33	-	(128,952)	-	-
Acquisition of other investments		(5,287)	-	-	-
Advances from/(Repayments to) subsidiary companies		-	-	303,986	(161,483)
Investment in jointly-controlled entity		-	(2,100)	-	-
Disposal of subsidiaries, net of cash		(591)	-	-	-
Proceeds from disposal of property, plant and equipment		6,558	312	-	-
Proceeds from issuance of share to non-controlling interests		300	1	-	-
Net cash (used in)/generated from investing activities		(8,127)	(187,918)	303,986	(161,483)
Cash flows from financing activities					
Finance charges/Interest paid		(46,417)	(52,025)	(16,783)	(19,491)
Proceeds from issuance of shares		-	195,569	-	195,569
Repayment of CP/MTN		(95,000)	(95,000)	-	-
Net (repayments)/proceeds from bills payable		(24,026)	13,283	-	-
Net repayment of finance lease liabilities		(6,167)	(8,573)	-	-
Net proceeds/(repayments) of term loans and revolving credit		123,531	(123,676)	(301,140)	(50,190)
Share buy-back		(5)	(14)	(5)	(14)
Share issue expenses		-	(9,367)	-	(9,367)
Net cash (used in)/generated from financing activities		(48,084)	(79,803)	(317,928)	116,507

Statements of cash flows for the year ended 31 December 2013

(continued)

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Net increase/(decrease) in cash and cash equivalents		76,147	(215,884)	8,787	17,208
Cash and cash equivalents at 1 January		185,440	401,324	17,830	622
Cash and cash equivalents at 31 December	(i)	261,587	185,440	26,617	17,830

Notes to statements of cash flows:

(i) Cash and cash equivalents

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

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash and bank balances	14	223,973	183,022	14,659	17,830
Deposits with licensed banks and financial institutions	14	44,328	8,888	11,958	-
		268,301	191,910	26,617	17,830
Bank overdrafts	16	(6,714)	(6,470)	-	-
		261,587	185,440	26,617	17,830

(ii) Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM24,024,000 (2012: RM66,162,000), of which RM16,019,000 (2012: RM16,909,000) was acquired by means of hire purchase.

Statements of cash flows for the year ended 31 December 2013

(continued)

Notes to statements of cash flows (continued):

(iii) Non cash transactions

Operating activities

During the financial year, there was no dividend income recognised (31.12.2012: RM34,000,000). The previous financial year dividend income received was net through off against the amount due to a subsidiary.

Investing activities

During the financial year, the Company increased its investment in its subsidiaries by RM1,131,900,000 (2012: RM50,190,000) through capitalisation of amounting owing from the subsidiaries.

KNM Group Berhad

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

and its subsidiaries

Notes to the financial statements

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interest in associates and jointly ventures. The financial statements of the Company as at and for the year ended 31 December 2013 do not include other entities.

The Company is principally engaged in investment holding activities and provision of management services, whilst the principal activities of the subsidiaries are as stated in Note 32 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 30 April 2014.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

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

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies* #

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)* ##
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)* ##

1. *Basis of preparation (continued)*

(a) *Statement of* compliance (continued)

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

- MFRS 9, *Financial Instruments* (2009)
- MFRS 9, *Financial Instruments* (2010)
- MFRS 9, *Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Company plans to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014, except for those marked "#" which are not applicable to the Company.

- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014, except for those marked "##" which are not applicable to the Company.

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

(i) MFRS 9, *Financial Instruments*

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

The Group and the Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

1. Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with MFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amount recognised in the financial statements other than those disclosed in the following notes:

- *Note 3* - *Revaluation of property and depreciation of plant and machinery*
- *Note 4* - *Measurement of the recoverable amounts of the cash-generating units*
- *Note 9* - *Recognition of unutilised tax losses and unabsorbed capital allowances*
- *Note 12* - *Impairment of trade and other receivables*
- *Note 12.1* - *Construction work-in-progress*
- *Note 15.7* - *Warrant reserve*
- *Note 26* - *Contingent liabilities*

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group adopted MFRS 10, *Consolidated Financial Statements* in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the previous financial years, control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights are considered when assessing control when such rights are presently exercisable.
- The Group considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In the previous financial years, the Group did not consider *de facto* power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The effects from the adoption of MFRS 10 are disclosed in Note 37.

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

2. Significant accounting policies

(a) Basis of consolidation (continued)

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of non-controlling interests

The Group treats all changes in ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the changes, and any consideration received or paid, is adjusted to or against Group reserves.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Associates (continued)

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

(vi) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

The Group adopted MFRS 11, *Joint Arrangements* in the current financial year. As a result, joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group and the Company have rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method.

In the previous financial years, joint arrangements were classified and accounted for as jointly-controlled entity and the Group accounted for its interest using equity method.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 11. The adoption of MFRS 11 has no significant impact to the financial statements of the Group.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non - controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(viii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the respective functional currencies of Group entities at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

(i) Foreign currency transactions (continued)

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve ("FCTR") in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR in equity.

2. Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

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

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial assets (continued)

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

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

(c) Available-for-sale financial assets

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

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

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (See note 2(j)(i)).

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Regular way purchase or sale of financial assets

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

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

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

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

(v) Hedge accounting

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Hedge accounting (continued)

Cash flow hedge (continued)

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

Hedge of a net investment

A hedge of a net investment is a hedge in the interest of the net assets of a foreign operation. In a net investment hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. The cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss on disposal of the foreign operation.

(vi) Derecognition

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

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

2. Significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

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

The Group revalues its freehold lands and buildings every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value. Additions subsequent to their revaluation are stated in the financial statements at cost until the next revaluation exercise.

Freehold lands, leasehold lands and buildings are stated at Directors' valuation based on professional valuations on the open market basis conducted in December 2009. The next valuation is expected to be in 2014.

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

Cost includes expenditures that are directly attributable to the acquisition of the asset any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other operating expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated seperately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction (capital work in progress) are not depreciated until the assets are ready for their intended use.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

Leasehold lands	45 - 66 years
Buildings	20 - 60 years
Building improvements	5 - 15 years
Plant and machineries	4 - 20 years
Motor vehicles	3 - 10 years
Furniture, fittings and equipment	2.5 - 10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

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

2. Significant accounting policies (continued)

(e) Leased assets (continued)

(ii) Operating lease

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

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

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

(f) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

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

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Subsequent expenditure

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

(iv) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Other intangible assets are amortised from the date that they are available for use.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

• Technology related intangible asset	5 - 15 years
• Customer and marketing related intangible asset	1 - 20 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(g) Inventories

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

The cost of raw materials, tools and consumables is determined on a first-in first-out principle and includes the cost of direct materials and incidental costs in bringing them to their existing location and condition. In the case of work–in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2. Significant accounting policies (continued)

(g) Inventories (continued)

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

(h) Constructions work-in-progress

Constructions work-in-progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work-in-progress is presented as part of "trade and other receivables" as "amount due from contract customers" in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as "amount due to contract customers" which is part of the "deferred income" in the statement of financial position.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and financial institutions, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(j) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and investment in associates and joint venture) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

2. Significant accounting policies (continued)

(j) Impairment (continued)

(i) Financial assets (continued)

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

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

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

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

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

(ii) Other assets

The carrying amounts of other assets (except for inventories, amount due from contract customers and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

2. Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Other assets (continued)

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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

Impairment losses are recognised in profit or loss. Impairment loss recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss has recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the profit or loss in the financial year in which the reversals are recognised.

2. Significant accounting policies (continued)

(k) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Repurchase, disposal and reissue of share capital (treasury shares)

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

Where treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both. Where treasury shares are reissued by re-sale in the open market, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity, and the surplus or deficit on the transaction is presented in share premium.

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

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

2. Significant accounting policies (continued)

(k) Equity instruments (continued)

(v) Warrant reserves

The proceeds from the Rights Issue with Warrants is allocated to both Rights Share and Warrants using a reasonable and appropriate method of allocation.

The Warrants issued are recognised in the statements of financial position as "Warrant Reserve" at fair value as at the date of issuance and credited to "Warrant Reserve" account which is non-distributable. The "Warrant Reserve" will be transferred to "Share Capital" account upon the exercise of Warrants. The "Warrant Reserve" in relation to the unexercised Warrants will be transferred to "Share Capital" account upon expiry of the exercise period of the Warrants.

(l) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plan

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

(iii) Long service leave

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The long-term employee benefits have been measured at the present value of the future cash outflows to be made for those benefits.

2. Significant accounting policies (continued)

(m) Revenue and other income

(i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related future contract activity.

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

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

(ii) Dividend income

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

(iii) Management fee

Management fee is recognised on an accrual basis.

(iv) Services

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

2. Significant accounting policies (continued)

(m) Revenue and other income (continued)

(v) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(n) Borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

2. Significant accounting policies (continued)

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their taxes bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentive that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

(p) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed off or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

2. Significant accounting policies (continued)

(q) Earnings per ordinary share

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

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise warrants issued by the Company.

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(t) Contingent

(i) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Significant accounting policies (continued)

(t) Contingent (continued)

(i) Contingent liabilities (continued)

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

(ii) Contingent assets

Where it is not probable that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

(u) Fair value measurements

From 1 January 2013, the Group adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, the Group applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Group's assets or liabilities.

3. Property, plant and equipment

Group

	Note	Lands RM'000	Buildings RM'000	Building improve-ments RM'000	Plant and machineries RM'000	Motor vehicles RM'000	Furniture, fittings and equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/Valuation									
At 1 January 2012		85,378	421,342	10,714	471,753	10,527	73,413	19,993	1,093,120
Additions		181	3,927	606	25,478	1,188	14,834	19,948	66,162
Disposals		-	-	-	(2,571)	(209)	(22)	-	(2,802)
Reclassification		-	-	-	356	-	(1)	(355)	-
Acquisition of subsidiary	33	128,952	-	-	-	-	-	-	128,952
Effect of movements in exchange rates		(2,698)	(7,343)	(5,520)	(10,367)	(289)	(6,198)	(85)	(32,500)
At 31 December 2012/1 January 2013		211,813	417,926	5,800	484,649	11,217	82,026	39,501	1,252,932
Additions		24	167	1,156	11,447	1,829	6,156	3,245	24,024
Disposals		(7,164)	(1,935)	-	(1,363)	(338)	(312)	-	(11,112)
Disposals of subsidiaries	22	(14,217)	(24,082)	(241)	(20,859)	(169)	(2,706)	-	(62,274)
Reclassification		-	6,106	-	35,177	-	-	(41,283)	-
Write offs		-	-	-	-	-	(1,136)	-	(1,136)
Effect of movements in exchange rates		12,218	33,760	580	38,117	898	7,358	1,684	94,615
At 31 December 2013		202,674	431,942	7,295	547,168	13,437	91,386	3,147	1,297,049

3. Property, plant and equipment (continued)

Group	Lands RM'000	Buildings RM'000	Building improve-ments RM'000	Plant and machineries RM'000	Motor vehicles RM'000	Furniture, fittings and equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation and impairment loss								
At 1 January 2012								
Accumulated depreciation	350	35,366	5,734	232,642	9,200	43,492	-	326,784
Accumulated impairment loss	4,353	-	-	-	-	-	-	4,353
	4,703	35,366	5,734	232,642	9,200	43,492	-	331,137
Depreciation for the year	464	15,317	367	36,615	817	9,123	-	62,703
Disposals	-	-	-	(1,187)	(195)	(7)	-	(1,389)
Impairment loss	-	-	-	3,600	-	900	-	4,500
Effect of movements in exchange rates	(22)	1,933	(3,470)	(4,673)	(294)	(4,026)	-	(10,552)
At 31 December 2012/1 January 2013								
Accumulated depreciation	792	52,616	2,631	263,397	9,528	48,582	-	377,546
Accumulated impairment loss	4,353	-	-	3,600	-	900	-	8,853
	5,145	52,616	2,631	266,997	9,528	49,482	-	386,399
Depreciation for the year	458	15,602	438	40,199	825	9,797	-	67,319
Disposals	-	(935)	-	(1,080)	(235)	(213)	-	(2,463)
Disposals of subsidiaries	-	(1,588)	(113)	(17,397)	(617)	(1,521)	-	(21,236)
Write offs	-	-	-	-	-	(1,136)	-	(1,136)
Impairment loss	-	-	-	1,958	-	-	-	1,958
Effect of movements in exchange rates	65	4,536	296	20,535	741	5,241	-	31,414
At 31 December 2013								
Accumulated depreciation	1,315	70,231	3,252	305,654	10,242	60,750	-	451,444
Accumulated impairment loss	4,353	-	-	5,558	-	900	-	10,811
	5,668	70,231	3,252	311,212	10,242	61,650	-	462,255
Carrying amounts								
At 1 January 2012	80,675	385,976	4,980	239,111	1,327	29,921	19,993	761,983
At 31 December 2012/1 January 2013	206,668	365,310	3,169	217,652	1,689	32,544	39,501	866,533
At 31 December 2013	197,006	361,711	4,043	235,956	3,195	29,736	3,147	834,794

3. Property, plant and equipment (continued)

3.1 Depreciation charge for the year is allocated as follows:

	Note	Group 2013 RM'000	Group 2012 RM'000
Income statement	23	11,656	11,624
Construction work-in-progress	12.1	55,663	51,079
		67,319	62,703

3.2 Revaluation

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

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

	Group 31.12.2013 RM'000	Group 31.12.2012 RM'000	Group 1.1.2012 RM'000
Freehold lands	152,708	152,924	25,868
Leasehold lands	23,266	29,485	30,639
Buildings	345,195	364,700	381,530
	521,169	547,109	438,037

3.3 Security

Certain freehold lands and buildings and capital work-in-progress of the Group costing/valued at RM243,510,476 (31 December 2012: RM103,158,000; 1 January 2012: RM98,902,000) in subsidiaries are charged to certain licensed banks as security for credit facilities granted to the subsidiaries (Note 16).

3. Property, plant and equipment (continued)

3.4 Lands

Included in the carrying amounts of lands are:

	Group		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Leasehold lands			
- Unexpired period less than 50 years	20,559	26,382	27,052
- Unexpired period more than 50 years	14,111	13,972	14,364
Freehold lands	162,336	166,314	39,259
	197,006	206,668	80,675

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

3.5 Assets acquired under finance lease

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

	Group		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Freehold land	5,408	4,842	4,923
Building	4,980	4,669	4,960
Plant and machineries	46,929	30,320	23,972
Furniture, fittings and equipment	-	153	-
Motor vehicle	1,027	271	-
	58,344	40,255	33,855

4. Intangible assets

Group	Goodwill RM'000	Other intangible assets RM'000	Total RM'000
Cost			
At 1 January 2012	790,677	736,813	1,527,490
Additions	-	8,012	8,012
Effect of movements in exchange rates	(14,351)	(12,034)	(26,385)
At 31 December 2012/1 January 2013	776,326	732,791	1,509,117
Additions	-	1,102	1,102
Disposal of subsidiaries	(29,557)	-	(29,557)
Effect of movements in exchange rates	86,073	85,545	171,618
At 31 December 2013	832,842	819,438	1,652,280
Amortisation and impairment loss			
At 1 January 2012			
Accumulated amortisation	-	(142,172)	(142,172)
Accumulated impairment loss	(2,794)	-	(2,794)
	(2,794)	(142,172)	(144,966)
Amortisation for the year	-	(32,743)	(32,743)
Impairment loss	(29,557)	-	(29,557)
Effect of movements in exchange rates	-	1,794	1,794
At 31 December 2012/1 January 2013			
Accumulated amortisation	-	(173,121)	(173,121)
Accumulated impairment loss	(32,351)	-	(32,351)
	(32,351)	(173,121)	(205,472)
Amortisation for the year	-	(34,562)	(34,562)
Disposal of subsidiaries	29,557	-	29,557
Effect of movements in exchange rates	-	(22,854)	(22,854)
At 31 December 2013			
Accumulated amortisation	-	(230,537)	(230,537)
Accumulated impairment loss	(2,794)	-	(2,794)
	(2,794)	(230,537)	(233,331)
Carrying amounts			
At 1 January 2012	787,883	594,641	1,382,524
At 31 December 2012/1 January 2013	743,975	559,670	1,303,645
At 31 December 2013	830,048	588,901	1,418,949
	Note 4.1	Note 4.2	

4. Intangible assets (continued)

4.1 Goodwill

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

4.2 Other intangible assets

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

4.3 Amortisation and impairment charge

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

4.4 Impairment loss

There is no impairment loss incurred during the financial year under review.

During the financial year, the Group sold its entire interest in the Brazil operations unit. The effect of the disposal is disclosed in Note 22 to the financial statements.

In prior year, the goodwill of RM29,557,000, which was attributed to the skills and technical talent of the business acquired in 2008 had been fully impaired after having evaluated that the ability of the Brazil operating unit was not expected to generate sufficient sales order on its own based on operating model inherited since KNM Group acquired the Brazil operation entities in 2008.

4.5 Impairment testing for cash-generating units containing goodwill

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

4. Intangible asset (continued)

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

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

	Group		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Australia unit	6,672	6,672	6,672
Germany unit	823,376	737,303	749,557
Brazil unit	-	-	31,654
Total	830,048	743,975	787,883

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

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

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

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

	31.12.2013	31.12.2012	1.1.2012
Germany unit	9%	10%	10%
Australia unit	12%	12%	12%

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

The above estimates are particularly sensitive in the following areas:

- An increase of 0.57% in the discount rate used for Germany unit would result in an impairment loss of RM0.8million.

- A decrease of 1.50% in estimated growth rate in cash flow beyond 5 years period used for Germany unit would result in an impairment loss of RM31.8million.

5. Interests in subsidiaries

	Company		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Unquoted shares - at cost	1,651,396	518,796	518,796
Less: Impairment loss	(100)	(100)	-
Amount due from subsidiaries	65,851	1,142,727	1,092,537
	1,717,147	1,661,423	1,611,333

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

During the financial year, the investment in certain subsidiaries was increased through capitalisation of debts amounting to RM1,131,900,000.

Details of the subsidiaries are shown in Note 32 to the financial statements.

Non-controlling interest in subsidiaries

The Group's subsidiaries that have non-controlling interest are not material to the Group.

6. Investments in associates

	Group		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Unquoted shares - at cost	40	40	40
Share of post-acquisition reserve	(10)	(16)	(5)
	30	24	35

Details of the associates are as follows:

Name of Company	Principal place of business/ Country of incorporation	Nature of the relationship	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Dimensi Bumijaya Sdn. Bhd.	Malaysia	Dormant.	40	40	40

7. Investments in joint venture

	Group			Company		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Unquoted shares - at cost	7,911	8,224	6,124	40	40	40
Share of post acquisition reserve	(3,915)	(752)	(363)	-	-	-
Effect of movements in exchange rates	565	(78)	121	-	-	-
	4,561	7,394	5,882	40	40	40

Details of the joint venture are as follows:

Name of Company	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
KPN Gas Technology Sdn. Bhd.	Malaysia	Provision of project management, process management process know how, engineering, procurement, construction, commissioning, start-up, operation, spare parts and maintenance for the field gas separation and gas treatment facilities including desalting, gas dehydration, gas sweetening, natural gas liquids recovery, sulphur recovery and modular units.	50	50	50
Verwater KNM Sdn. Bhd. **	Malaysia	Involved in the business of relocating and jacking of tank catalyst change-out and chemical cleaning work.	50	50	50

7. Investments in joint venture (continued)

Name of Company	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
KNM Grinaker-LTA (Proprietary) Limited ^	Republic of South Africa	Manufacture of process and pressure vessels, heat transfer equipment, industrial boilers, tank farms, process skids and modules for Republic of South Africa market and on a case to case basis for other markets.	49.9	49.9	49.9
Petrosab Petroleum Sdn. Bhd. **	Malaysia	Dormant.	40	40	40
Subsidiary of Petrosab Petroleum Sdn. Bhd.					
KNM Petrosab Engineering Sdn. Bhd. **	Malaysia	Operate the business of providing the services relating to the arrangement of design, engineering, procurement, construction testing and other kinds of services relating to oil, gas, petrochemical, minerals, biofuel and energy industries.	52	52	52

** Audited by another firm of accountants.

^ Equity accounted based on management accounts.

7. Investments in joint venture (continued)

The following table reconciles the summarised financial information to the carrying amount of the Group's interest in the entities, which is accounted for using the equity method.

	Group 31.12.2013 RM'000	Group 31.12.2012 RM'000	Group 1.1.2012 RM'000
Reconciliation of net assets to carrying amount			
As at 31 December			
Group's share of net assets/ Carrying amount in the statement of financial position	4,561	7,394	5,882

Group's share of results		
Year ended 31 December	**2013**	**2012**
Group's share of loss for the year	(3,504)	(144)
Group's share of other comprehensive income	487	(239)
Group's share of total comprehensive expense	(3,017)	(383)

The Group's share of the cumulative losses of KNM Grinaker-LTA (Proprietary) Limited amounting to RM35,000 (2012: Nil) has not been recognised in the Group's profit or loss using equity method because the Group's share of losses of the joint venture exceeded the carrying amount of its investment in the joint venture.

8. Other investments

Group **31 December 2013**	**Shares Quoted RM'000**	**Shares Unquoted RM'000**	**Club Member-ship RM'000**	**Redeemable Convertible Preference Shares RM'000**	**Total RM'000**
Non-current					
Available-for-sale financial asset	-	4,337	70	-	4,407
Loans and receivables	-	-	-	13,357	13,357
	-	4,337	70	13,357	17,764
Less: Impairment loss	-	(1,667)	-	(3,339)	(5,006)
	-	2,670	70	10,018	12,758
Representing items:					
At cost	-	2,670	-	10,018	12,688
At fair value	-	-	70	-	70
	-	2,670	70	10,018	12,758

8. Other investments (continued)

Group	Shares Quoted RM'000	Shares Unquoted RM'000	Club Member-ship RM'000	Redeemable Convertible Preference Shares RM'000	Total RM'000
31 December 2013					
Current					
Financial assets at fair value through profit or loss					
-Held for trading	5,287	-	-	-	5,287
Market value of quoted investment	5,287	-	-	-	5,287
31 December 2012					
Non-current					
Available-for-sale financial asset	-	3,887	100	-	3,987
Loans and receivables	-	-	-	11,615	11,615
	-	3,887	100	11,615	15,602
Less: Impairment loss	-	(1,389)	(30)	-	(1,419)
	-	2,498	70	11,615	14,183
Representing items:					
At cost	-	2,498	-	11,615	14,113
At fair value	-	-	70	-	70
	-	2,498	70	11,615	14,183
1 January 2012					
Non-current					
Available-for-sale financial asset	-	3,988	100	-	4,088
Loans and receivables	-	-	-	10,000	10,000
	-	3,988	100	10,000	14,088
Representing items:					
At cost	-	3,988	-	10,000	13,988
At fair value	-	-	100	-	100
	-	3,988	100	10,000	14,088

9. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
Group	**31.12.2013 RM'000**	**31.12.2012 RM'000**	**1.1.2012 RM'000**	**31.12.2013 RM'000**	**31.12.2012 RM'000**	**1.1.2012 RM'000**	**31.12.2013 RM'000**	**31.12.2012 RM'000**	**1.1.2012 RM'000**
Property, plant and equipment	4,283	3,596	3,004	(10,107)	(40,699)	(44,605)	(5,824)	(37,103)	(41,601)
Revaluation*	-	-	-	(245,524)	(232,917)	(242,251)	(245,524)	(232,917)	(242,251)
Provisions	17,461	13,690	17,580	-	-	-	17,461	13,690	17,580
Other items	17,652	31,273	11,086	(10,648)	(5,520)	(5,392)	7,004	25,753	5,694
Tax incentive	15,267	-	-	-	-	-	15,267	-	-
Tax loss carry-forward and unutilised capital allowance	348,814	365,923	300,662	-	-	-	348,814	365,923	300,662
Tax assets/(liabilities)	403,477	414,482	332,332	(266,279)	(279,136)	(292,248)	137,198	135,346	40,084
Set off of tax	(33,229)	(49,848)	(52,410)	33,229	49,848	52,410	-	-	-
Net tax assets/(liabilities)	370,248	364,634	279,922	(233,050)	(229,288)	(239,838)	137,198	135,346	40,084
Company									
Other items	-	8	119	-	-	-	-	8	119

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

The tax loss carry-forward and unutilised capital allowances do not expire under current tax legislation except for tax loss carry-forward of RM32,012,000 (31.12.2012: RM13,731,000; 1.1.2012 : RM11,646,000) relating to certain oversea subsidiaries which will expire in 2 to 5 years under the legislation of that country.

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

Key sources of estimation uncertainty

The carrying value of deferred tax assets of the Group at 31 December 2013 is mainly attributed from the recognised tax losses and tax incentive of a subsidiary. Based on the projected future taxable profits, the recognised tax losses and tax incentive of that subsidiary is expected to be fully utilised.

Assumptions about generation of future taxable profits are dependent on management's projection of future profitability of the entity concerned. These assumptions include estimation of future contract revenue that could be generated and the related contracts' profit margins, timing as to when the contracts can be secured including project financing and support of lenders to facilitate the timing of commencement of projects, operating and administrative costs, capital expenditure, other capital management transactions and non-amendments of income tax legislation. Actual results could be significantly different from the Directors' estimate of future profitability since anticipated events may not occur as expected and the variation could be material. These judgements and assumptions are subject to significant risks and uncertainties. Hence, there is a possibility that changes in circumstances may impact the extent of the amount of deferred tax assets recognised in the statements of financial position and statements of profit or loss.

Unrecognised deferred tax assets

No deferred tax has been recognised for the following item (at gross amounts):

	Group		
	31.12.2013	**31.12.2012**	**1.1.2012**
	RM'000	**RM'000**	**RM'000**
Tax loss carry-forward	89,432	152,136	128,644
Unutilised capital allowances	1,395	931	51

The above items do not expire under current tax legislation except for tax loss carry-forward of RM200,000 (31.12.2012: RM136,000; 1.1.2012: RM110,000) which will expire should there be a substantial change in shareholders (more than 50%). Deferred tax assets have not been recognised in respect of the unutilised tax losses and unutilised capital allowances above because it is not probable that future taxable profit will be available against which the Group entities can utilise the benefits there from.

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

Movement in temporary differences during the year

Group	At 1.1.2012 RM'000	Recognised in profit or loss (Note 21) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2012 RM'000	Recognised in profit or loss (Note 21) RM'000	Effect of movements in exchange rates RM'000	At 31.12.2013 RM'000
Property, plant and equipment	(41,601)	4,498	-	(37,103)	31,279	-	(5,824)
Revaluation*	(242,251)	14,830	(5,496)	(232,917)	(25,777)	13,170	(245,524)
Provisions	17,580	(3,890)	-	13,690	3,771	-	17,461
Other items	5,694	20,059	-	25,753	(18,749)	-	7,004
Tax incentive	-	-	-	-	15,267	-	15,267
Tax loss carry-forward and unutilised capital allowance	300,662	65,261	-	365,923	(17,109)	-	348,814
	40,084	100,758	(5,496)	135,346	(11,318)	13,170	137,198
Company							
Other items	119	(111)	-	8	(8)	-	-

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

10. Amount due from a subsidiary

In prior year, the amount due from a subsidiary relates to advances which was unsecured, not repayable within the next twelve months and bear interest of 2.25% (1.1.2012: 2.25%) per annum above cost of funds. The amount has been fully repaid during the financial year.

11. Inventories

	Group		
	31.12.2013	**31.12.2012**	**1.1.2012**
	RM'000	**RM'000**	**RM'000**
At cost:			
Raw materials	30,727	40,899	32,771
Tools and consumables	19,606	12,989	14,427
Work in progress	1,617	1,970	2,469
	51,950	55,858	49,667
At net realisable value:			
Raw materials	24,455	19,529	21,266
Tools and consumables	560	1,424	1,187
Works in progress	940	-	-
	77,905	76,811	72,120

12. Trade and other receivables

	Note	Group 31.12.2013 RM'000	Group 31.12.2012 RM'000	Group 1.1.2012 RM'000	Company 31.12.2013 RM'000	Company 31.12.2012 RM'000	Company 1.1.2012 RM'000
Trade							
Trade receivables		427,388	375,791	337,465	-	-	-
Amount due from contract customers	12.1	449,191	490,177	449,179	-	-	-
		876,579	865,968	786,644	-	-	-
Non-trade							
Amount due from							
- subsidiaries	12.2	-	-	-	285,747	344,731	9,341
- associates	12.2	151	279	77	2	14	14
- joint venture	12.2	9,863	7,435	17,621	3,880	3,320	1,360
Other receivables	12.3	36,780	23,648	34,904	2	14	3,299
Deposits	12.4	11,347	6,586	6,669	23	3	3
Prepayment	12.5	68,201	74,454	109,422	1,715	2,413	2,821
		126,342	112,402	168,693	291,369	350,495	16,838
		1,002,921	978,370	955,337	291,369	350,495	16,838

During the financial year, RM15,000,000 of the amount due from subsidiaries has been capitalised as investment in unquoted shares in subsidiaries.

12.1 Construction work-in-progress

	Note	Group 31.12.2013 RM'000	Group 31.12.2012 RM'000	Group 1.1.2012 RM'000
Aggregate costs incurred to date		4,504,215	4,241,708	3,308,174
Add: Net attributable profits		893,276	728,003	666,967
Less: Foreseeable losses		(21,933)	(32,917)	(62,897)
		5,375,558	4,936,794	3,912,244
Less: Progress billings		(5,143,020)	(4,684,379)	(3,853,225)
		232,538	252,415	59,019
Represented by:				
Amount due from contract customers		449,191	490,177	449,179
Amount due to contract customers	18	(216,653)	(237,762)	(390,160)
		232,538	252,415	59,019

12. Trade and other receivables (continued)

12.1 Construction work-in-progress (continued)

Additions to aggregate costs incurred during the year include:

	Note	Group 2013 RM'000	Group 2012 RM'000
Depreciation of property, plant and equipment	3.1	55,663	51,079
Hire of plant and machineries		3,236	6,544
Rental of premises		8,403	6,800
Rental of machineries		187	148
Staff costs		236,543	237,702

12.2 Amount due from subsidiaries, associates and joint venture

The amounts due from subsidiaries, associates and joint venture are unsecured interest free and repayable on demand.

12.3 Other receivables

Included in other receivables of the Group are Goods and Services Tax ("GST") and Value Added Tax ("VAT") receivable in foreign jurisdiction amounted to RM18,462,000 (31.12.2012: RM9,053,000; 1.1.2012: RM16,983,000).

12.4 Deposits

Included in deposits of the Group are rental deposit for building of RM165,000 (31.12.2012: RM165,000; 1.1.2012 : RM165,000) paid to a company in which certain directors have financial interest.

12.5 Prepayments

Included in prepayment of the Group are advance payments to suppliers at RM50,518,000 (31.12.2012: RM60,258,000; 1.1.2012: RM96,852,000).

13. Derivative financial assets/(liabilities)

	31.12.2013			31.12.2012			1.1.2012		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Group									
Derivatives held for trading at fair value through profit or loss									
- Forward foreign exchange contracts ("FFEC")	228,076	5,164	(3,099)	374,755	8,371	(7,543)	576,745	17,520	(12,959)
- Interest rate swaps	-	-	-	250,950	-	(31)	250,950	-	(475)
Derivatives used for hedging	108,605	1,367	(1,418)	177,101	1,297	(1,241)	105,498	2,748	(7,920)
	336,681	6,531	(4,517)	802,806	9,668	(8,815)	933,193	20,268	(21,354)
Company									
Derivatives held for trading at fair value through profit or loss									
- Interest rate swaps	-	-	-	250,950	-	(31)	250,950	-	(475)

Forward foreign exchange contracts are used to manage the foreign currency exposures arising from the Group's receivables and payables denominated in currencies other than the functional currencies of Group entities. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward contracts are rolled over at maturity.

Interest rate swap is used to achieve an appropriate mix of fixed and floating interest rate exposure within the Group's policy. In previous financial year, the Group entered into interest rate swap with nominal value of RM250,950,000 to hedge the cash flow risk in relation to the floating interest rate of a bank loan. The interest rate swap was entered into for a period of two years and had a fixed swap rate of 3.26%.

14. Cash and bank balances

	Group			Company		
	31.12.2013	31.12.2012	1.1.2012	31.12.2013	31.12.2012	1.1.2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	223,973	183,022	353,525	14,659	17,830	622
Deposits with licensed banks	44,328	8,888	65,061	11,958	-	-
	268,301	191,910	418,586	26,617	17,830	622

15. Capital and reserves

15.1 Share capital

	Group and Company					
	31.12.2013		31.12.2012		1.1.2012	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares of RM1.00						
Authorised:						
At 1 January	2,250,000	2,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Created during the year	-	-	1,000,000	1,000,000	-	-
At 31 December	2,250,000	2,250,000	2,250,000	2,250,000	1,250,000	1,250,000
Ordinary shares of RM1.00						
Issued and fully paid shares:						
At 1 January	1,490,014	1,445,033	1,001,093	1,001,093	1,001,093	1,001,093
Movement during the year pursuant to:						
- Issue of ordinary shares pursuant to rights issue	-	-	488,921	488,921	-	-
- Allocation of warrant reserve	-	-	-	(44,981)	-	-
At 31 December	1,490,014	1,445,033	1,490,014	1,445,033	1,001,093	1,001,093

On 18 April 2014, the shareholders of the Company approved the par value reduction via cancellation of RM0.50 of par value of every existing share of RM1.00 each in the issued and paid up capital of the Company (Note 36.1).

15. Capital and reserves (continued)

15.2 Treasury shares

On 27 June 2013, the shareholders of the Company renewed the Company's plan to repurchase its own shares. During the financial year, the Company repurchased 10,000 of its issued ordinary shares of RM1.00 each listed on the Main Market of Bursa Malaysia Securities Berhad from the open market at an average price of approximately RM0.47 per share. The total consideration paid was RM4,737 including transaction costs of RM87. The repurchase transactions were financed by internally generated funds. The shares repurchased are retained as treasury shares. None of the treasury shares held were resold or cancelled during the financial year.

As at 31 December 2013, the Company held 23,271,275 ordinary shares of RM1.00 each as treasury shares out of its total issued and paid-up share capital. Hence, the number of outstanding shares in issue and paid-up after deducting treasury shares as at 31 December 2013 is 1,466,741,977 ordinary shares of RM1.00 each. The treasury shares have no rights to voting, dividends or participation in other distribution.

15.3 Revaluation reserve

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

15.4 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currency other than RM as well as the exchange differences arising from monetary items that in substance form the Company's net investment in subsidiaries.

15.5 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

15.6 Fair value reserve

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

15.7 Warrant reserve

There were no warrants exercised since its issuance. The number of warrants unexercised at the end of the reporting period was 488,920,659 (31.12.2012; 488,920,659; 1.1.2012: Nil). The warrant will be expired on 15 November 2017.

15. Capital and reserves (continued)

15.8 Retained earnings

The Company may distribute single tier dividend to its shareholders out of its entire retained earnings.

16. Loans and borrowings

		Group		
		31.12.2013	**31.12.2012**	**1.1.2012**
		RM'000	**RM'000**	**RM'000**
Non-current				
Floating rate term loans	- secured	171,775	73,843	286,510
	- unsecured	244,813	9,156	19,739
Fixed rate term loans	- secured	13,681	-	-
	- unsecured	859	1,136	1,517
Murabahah Commercial Paper (CP)/Medium Term Notes (MTN)	- unsecured	-	-	45,000
Floating rate finance lease liabilities		15,584	14,334	6,764
Fixed rate finance lease liabilities		7,551	6,369	6,860
		454,263	104,838	366,390
Current				
Bank overdrafts	- secured	6,714	6,470	17,262
Bills payable	- unsecured	196,320	220,346	207,063
Floating rate term loans	- secured	68,036	305,188*	104,103
	- unsecured	101,834	104,050*	24,523
Fixed rate term loans	- secured	28,661	-	-
	- unsecured	443	3,308	3,649
Murabahah Commercial Paper (CP)/Medium Term Notes (MTN)	- unsecured	-	95,000	145,000
Revolving credit	- unsecured	77,000	90,500	270,816
Floating rate finance lease liabilities		8,903	5,384	4,277
Fixed rate finance lease liabilities		4,847	1,351	1,201
		492,758	831,597	777,894
		947,021	936,435	1,144,284

* *Included in 31 December 2012 secured and unsecured floating rate term loans was non-current portion of borrowing of RM150,570,000 and RM48,977,000 respectively that were reclassified as current.*

16. Loans and borrowings (continued)

		Company	
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Non-current			
Floating rate term loans - secured	-	-	250,950
Current			
Floating rate term loans - secured	-	301,140*	100,380
	-	301,140	351,330

* *Included in 31 December 2012 secured floating rate term loans was non-current portion of borrowing of RM150,570,000 that were reclassified as current.*

16.1 The bank overdraft for the Malaysian's subsidiary is subject to interest rate at 0.75% (31.12.2012: 0.75% 1.1.2012: 0.50% to 1.00%) above the lenders' base lending rate per annum whilst the bank overdraft for the overseas subsidiary is subject to interest at 10.58% (31.12.2012: 14.52% to 24.60%; 1.1.2012: 14.52% to 24.60%) per annum.

The bill payables are subject to interest ranging from 1.25% to 11.75% (31.12.2012: 1.23% to 6.25%; 1.1.2012: 0.92% to 4.50%) per annum.

In connection with the bank overdraft and trade facilities, the significant covenants, among others:

(i) The Group debt to equity ratio for the financial year ended 31 December 2013 shall not be more than 1.75 (31.12.2012: 1.75; 1.1.2012: 1.75) times at all times.

(ii) The ratio of profit before interest and tax to interest expense of a subsidiary for the financial year ended 31 December 2013 shall not be less than 2 (31.12.2012: 2; 1.1.2012: 2) times at all times.

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

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

(v) The Group Consolidated debt to EBITDA ratio is not applicable for the financial year ended 31 December 2013 (31.12.2012: 5; 1.1.2012: 3.5).

(vii) The Finance Service Cover ratio (FSCR ratio) of the Group shall not be less than 1.5 (31.12.2012: 1.5; 1.1.2012: 1.5).

16. Loans and borrowings (continued)

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

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

(ii) Pledge of the Group's shares in a foreign subsidiary.

The floating rate secured term loans are subject to interest ranging from 2.72% to 8.10% (31.12.2012: 2.69% to 6.33%; 1.1.2012: 2.81% to 5.71%) per annum.

The term loans facility covenants include the following:

(i) The Group's debt to equity ratio for the financial year ended 31 December 2013 shall not be more than 1.00 (31.12.2012: 1.75; 1.1.2012: 1.75) times at all times.

(ii) Maintenance of leverage ratio of not more than 3.5 times by a foreign subsidiary for the financial year 31 December 2013, assessed in accordance to the audited financials prepared using the local Generally Accepted Accounting Principles in that country.

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

The unsecured term loans were subject to interest ranging from 1.40% to 7.00% (31.12.2012: 1.40% to 7.56%; 1.1.2012: 1.17% to 7.40%) per annum.

16.4 CP/MTN programme has been fully redeemed during the financial year ended 31 December 2013.

The CP/MTN were subject to profit rates ranging from 3.80% to 6.00% (31.12.2012: 3.80% to 6.00%; 1.1.2012: 3.80% to 5.80%) per annum.

16. Loans and borrowings (continued)

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

(i) The Group debt to equity ratio shall not be more than 1.75 for the financial year ended 31 December 2013 (31.12.2012: 1.75; 1.1.2012: 1.75) times at all times.

(ii) The Group consolidated debt to EBITDA ratio is not applicable for the financial year ended 31 December 2013 (31.12.2012: 5; 1.1.2012: 3.5).

(iii) The debts service cover ratio of the Group shall not be less than 1.5 for the financial year ended 31 December 2013 (31.12.2012: 1.5; 1.1.2012: 1.5) computed on bi-annual basis (in ending June and Dec).

The revolving credits were subject to interest ranging from 3.78% to 6.25% (31.12.2012: 4.47% to 6.00%; 1.1.2012: 2.19% to 5.00%) per annum.

16.6 Covenants compliance

For the reporting period ended 31 December 2012 and 31 December 2011, the Financial Service Cover Ratio and the Debts Service Cover Ratio fell short of the prescribed financial covenant ratios. In order to rectify the situation, subsequent to the respective financial year end, the Company and certain subsidiaries have successfully obtained indulgence/waiver from the affected lending institutions.

In 2013, the Group through negotiation with its financiers regularised the shortfall in the prescribed financial covenant ratio including rebalancing the maturity profile of its loan portfolio.

For the financial year ended 31 December 2013, the Group fulfilled financial institutions' required covenants.

16. Loans and borrowings (continued)

16.7 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 31.12.2013 RM'000	Interest 31.12.2013 RM'000	Present value of minimum lease payments 31.12.2013 RM'000	Future minimum lease payments 31.12.2012 RM'000	Interest 31.12.2012 RM'000	Present value of minimum lease payments 31.12.2012 RM'000	Future minimum lease payments 1.1.2012 RM'000	Interest 1.1.2012 RM'000	Present value of minimum lease payments 1.1.2012 RM'000
Less than one year	15,274	(1,524)	13,750	7,910	(1,175)	6,735	6,397	(919)	5,478
Between one and five years	23,651	(1,954)	21,697	20,544	(2,103)	18,441	11,805	(1,420)	10,385
More than five years	1,479	(41)	1,438	2,407	(145)	2,262	3,493	(254)	3,239
	40,404	(3,519)	36,885	30,861	(3,423)	27,438	21,695	(2,593)	19,102

The finance lease liabilities are subject to interest ranging from 1.88% to 6.25% (31.12.2012: 1.88% to 19.42%; 1.1.2012: 4.22% to 19.42%) per annum.

17. Long term payables

		Group			Company		
	Note	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Social security institutions	17.1	11,464	16,672	14,673	-	-	-
Other long term payables	17.2	41,355	4,746	6,029	41,355	-	-
Amount due to a subsidiary	17.3	-	-	-	483,941	483,941	-
		52,819	21,418	20,702	525,296	483,941	-

17.1 Amounts payable to social security institutions of foreign subsidiaries are unsecured, interest free (31.12.2012: Nil; 1.1.2012: Nil) and not repayable within the next twelve months.

17.2 Advances from a related party which is unsecured, interest free and not repayable within the next twelve months.

17.3 Amount due to a subsidiary relates to advances which are unsecured, not repayable within the next twelve months and bearing interest of 5.27% (31.12.2012: 6.56%; 1.1.2012: Nil) per annum.

18. Deferred income

		Group		
	Note	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Amount due to contract customers	12.1	216,653	237,762	390,160

19. Trade and other payables

	Note	Group 31.12.2013 RM'000	Group 31.12.2012 RM'000	Group 1.1.2012 RM'000	Company 31.12.2013 RM'000	Company 31.12.2012 RM'000	Company 1.1.2012 RM'000
Trade							
Trade payables		410,007	382,045	341,302	-	-	-
Non-trade							
Amount due to							
- subsidiaries	19.1	-	-	-	1,821	612	344,362
- associates	19.1	-	168	-	-	-	-
- joint venture	19.1	2,346	10,328	9,366	-	-	-
- related parties	19.1	21,313	47,029	14,239	-	33,218	-
Other payables		13,982	61,318	57,180	1,414	4,392	101
Accrued expenses		79,545	83,055	78,907	297	3,572	3,563
		117,186	201,898	159,692	3,532	41,794	348,026
		527,193	583,943	500,994	3,532	41,794	348,026

19.1 The amounts due to subsidiaries, associates, joint venture and related parties are unsecured, interest free and repayable on demand.

20. Finance costs

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Interest expenses of financial liabilities that are not at fair value through profit or loss:				
- Term loans	35,817	25,966	16,783	19,491
- CP/MTN	4,772	8,352	-	-
- Revolving credit	4,987	8,706	-	-
- Bank overdrafts	2,216	3,438	-	-
- Finance lease	841	2,109	-	-
	48,633	48,571	16,783	19,491
Bank and other charges	4,669	4,874	81	1,685
	53,302	53,445	16,864	21,176
Interest expenses:				
-Recognised in profit or loss	53,302	53,445	16,864	21,176

21. Tax expense

Recognised in profit or loss

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income tax expense/(benefit) on continuing operations	26,591	(63,666)	1,439	1,609
Income tax expense on discontinued operation	-	4,614	-	-
Total income tax expense/(benefit)	26,591	(59,052)	1,439	1,609
Current tax expense				
Malaysian				
- current year	2,127	2,159	1,612	1,563
- over provision in prior year	(222)	(48)	(181)	(65)
Overseas				
- current year	24,692	37,852	-	-
- (over)/under provision in prior year	(11,324)	1,743	-	-
	15,273	41,706	1,431	1,498
Deferred tax expense				
- current year	11,318	(100,695)	8	111
- over provision in prior year	-	(63)	-	-
	11,318	(100,758)	8	111
Total tax expense/(benefit)	26,591	(59,052)	1,439	1,609
Reconciliation of tax expenses/(benefit)				
Profit for the year	19,908	70,346	2,391	37,007
(Gain)/Loss from discontinued operation, net of tax	(1,942)	80,608	-	-
	17,966	150,954	2,391	37,007
Total income tax expense/(benefit)	26,591	(63,666)	1,439	1,609
Profit excluding tax	44,557	87,288	3,830	38,616

21. Tax expense (continued)

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Reconciliation of tax expenses/(benefit) (continued)				
Income tax using Malaysian tax rate of 25% (2012: 25%)	11,743	5,259	958	9,654
Effect of tax rates in foreign jurisdictions*	2,023	(4,485)	-	-
Non-deductible expenses	49,382	12,184	662	520
Effect of change in tax rate^	(15,000)	-	-	-
Tax exempt income	(5,204)	(4,361)	-	(8,500)
Tax incentive #	(15,267)	(88,950)	-	-
Effect of tax losses not recognised	11,584	18,203	-	-
Utilisation of previously unrecognised temporary differences	(1,124)	1,466	-	-
	38,137	(60,684)	1,620	1,674
(Over)/Under provision in prior year				
- Current tax expense	(11,546)	1,695	(181)	(65)
- Deferred tax expense	-	(63)	-	-
	26,591	(59,052)	1,439	1,609

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

\# In 2013, the tax incentive relates to export allowance granted. In prior year, the tax incentive was granted pursuant to the acquisition of a foreign subsidiary. Incentive was claimable in form of deductible expenses over 4 years' period from Year of Assessment 2009 (see note 9 on key assumptions of estimation uncertainties relating to recognition of deferred tax benefits).

^ The corporate tax rates are 25% for year of assessment 2013 and 24% for year of assessment 2016 onwards. Consequently, deferred tax assets and liabilities are measured using these tax rates.

22. Discontinued operations

In September 2013, the Group sold its entire interest in its Brazilian operations. The Brazilian operations was not a discontinued operation or classified as held for sale as at 31 December 2012 and the comparative consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operations from the continuing operations. The sale of Brazilian operations in 2013 is to streamline the Group process equipment business by disposing of Group loss making entities and is in tandem with the Group's on-going transformation plan which entails the rationalisation of the Group's fabrication facilities worldwide.

22. Discontinued operations (continued)

Loss attributable to the discontinued operation was as follows:

	Group	
	2013	2012
Results of discontinued operation	**RM'000**	**RM'000**
Revenue	2,421	8,408
Expenses	(12,289)	(84,402)
Results from operating activities	(9,868)	(75,994)
Tax expense	-	(4,614)
Results from operating activities, net of tax	(9,868)	(80,608)
Gain on sale of discontinued operations	11,810	-
Profit/(Loss) for the year	1,942	(80,608)
Included in results from operating activities are:		
Depreciation of property, plant and equipment	1,946	3,162

The profit from discontinued operation of RM1,942,000 (2012: loss of RM81,446,000) is attributable entirely to the owners of the Company.

	Group	
	2013	2012
Cash flows from/(used in) disposal of subsidiaries	**RM'000**	**RM'000**
Net cash (used in)/generated from operating activities	(82)	13,008
Net cash generated from investing activities	-	1,198
Net cash generated from/(used in) financing activities	650	(14,536)
Effect on cash flows	568	(330)

	2013
Effect of disposal on the financial position of the Group	**RM'000**
Property, plant and equipment	41,038
Other investments	105
Inventories	414
Trade and other receivables	7,536
Cash and cash equivalents	591
Deferred tax liabilities	(13,964)
Loans and borrowings	(4,015)
Trade and other payables	(43,515)
Net liabilities	(11,810)
Gain on disposal of subsidiaries	11,810
Consideration received, satisfied in cash	- *
Cash and cash equivalents disposed of	(591)
Net cash outflow	(591)

* Total consideration is R$8 (equivalent to RM12).

23. Profit for the year

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Profit for the year is arrived at after charging:				
Auditors' remuneration				
- Audit fees				
KPMG Malaysia				
- current year	538	568	150	150
- prior year	150	9	-	-
Overseas affiliates of KPMG Malaysia				
- current year	2,554	2,523	-	-
Other auditors	66	55	-	-
- Non-audit fees				
KPMG Malaysia	31	54	31	54
Local affiliates of KPMG Malaysia	175	432	6	5
Overseas affiliates of KPMG Malaysia	1,099	830	-	-
Depreciation of property, plant and equipment (Note 3.1)	11,656	11,624	-	-
Impairment loss:				
- Property, plant and equipment	1,958	4,500	-	-
- Trade receivables	6,612	6,784	-	-
- Other receivables	-	555	-	-
- Amount due from subsidiaries	-	-	1,908	284
- Investment in subsidiaries	-	-	-	100
Amortisation of intangible assets	34,562	32,743	-	-
Bad debts written off	472	-	-	-
Rental of premises	18,683	13,784	-	-
Rental of equipment	3,478	3,392	-	-
Personnel expenses				
- Contribution to Employees' Provident Fund	9,896	10,020	-	-
- Wages, salaries and others	148,646	148,367	568	390
Loss on disposal of property, plant and equipment	2,091	1,101	-	-
Provision for foreseeable losses	987	13,565	-	-
Impairment of goodwill	-	29,557	-	-
Impairment of other investment	3,339	1,389	-	-
Provision for late delivery charges	9,657	-	-	-
and after crediting:				
Net gain on foreign exchange	20,553	5,827	104	15
Bad debts recovered	-	258	-	-
Rental income from property	2,148	1,753	-	-
Reversal of impairment loss of trade receivables	10,014	5,561	-	-
Reversal of late delivery charges	-	1,116	-	-
Gain on fair value of quoted shares	1,766	-	-	-

24. Earnings per ordinary share - Group

Basic earnings/(loss) per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2013 was based on the profit attributable to owners of the Company of RM23,450,000 (2012: RM72,283,000) and the weighted average number of ordinary shares outstanding during the year of 1,466,749,000 (2012: 1,038,120,000).

	Group 2013 '000	Group 2012 '000
Issued ordinary shares at beginning of the year	1,490,014	1,001,093
Effect of Rights Issue	-	60,278
Effect of treasury shares held	(23,265)	(23,251)
Weighted average number of ordinary shares	1,466,749	1,038,120

Group	Continuing Operations	Discontinued Operations	Total
2013			
Basic earnings/(loss) per ordinary share	1.47	0.13	1.60
2012			
Basic earnings/(loss) per ordinary share	14.72	(7.76)	6.96

Diluted earnings per ordinary share

The Group has no dilution in its earnings per ordinary share at 31 December 2013 as the average fair value of the ordinary shares for the year ended 31 December 2013 is lower than the exercise price of the warrant. Therefore, no consideration for adjustment in the form of an increase in the number of shares has been used in calculating potential dilution of its earnings per ordinary share.

25. Dividends

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

26. Contingent liabilities - unsecured

Group

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.

Notwithstanding the above assessment, management of the Group, also with the support of the subsidiary's independent tax advisor, believes that the subsidiary has strong grounds to defend its tax position.

Company	**31.12.2013 RM'000**	**31.12.2012 RM'000**	**1.1.2012 RM'000**
Guarantees issued for borrowings of subsidiaries	1,051,117	1,091,864	1,509,671

27. Commitments

	Group		
	31.12.2013 RM'000	**31.12.2012 RM'000**	**1.1.2012 RM'000**
Capital commitments:			
Property, plant and equipment			
Contracted but not provided for in the financial statements	-	14,361	1,836
Authorised but not contracted for	19,731	27,124	41,067
	19,731	41,485	42,903
Joint venture commitments:			
Capital commitments of the Group to the joint venture	7,578	7,686	10,499
Investment			
Authorised but not contracted for	-	5,013	5,064

28. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

Controlling related party relationships are as follows:

(i) Its subsidiaries companies as disclosed in Note 32.

(ii) Its associates as disclosed in Note 6.

(iii) Its joint venture as disclosed in Note 7.

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

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

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

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

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

(ix) Key management personnel.

28. Related parties (continued)

Related party transactions have been entered into in the normal course of business under negotiated terms. The significant related party transactions of the Group and the Company are shown below:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
A. Subsidiaries				
Management fees received	-	-	(5,305)	(7,894)
Loan interest received	-	-	(22,254)	(22,650)
B. Joint venture				
KNM Petrosab Engineering Sdn. Bhd.				
Interest receivable	-	(108)	-	-
Finance charges receivable	-	(149)	-	-
Contract billing receivable	(1,938)	223	-	-
Contract billing payable	-	(319)	-	-
Administrative and other support-services	(1,133)	(105)	-	-
KPN Gas Technology Sdn. Bhd.				
Contract billing receivable	(498)	(8,628)	-	-
Contract billing payable	1,758	24,605	-	-
Rental of premises	19	-	-	-
KNM Grinaker-LTA (Proprietary) Ltd				
Administrative and other support-services	-	(252)	-	-
Contract billing receivable	-	(109)	-	-
Interest receivable	-	(271)	-	-

28. Related parties (continued)

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
C. Related parties				
Inter Merger Sdn. Bhd.				
Rental of premises	1,209	1,209	-	-
Administrative charges	724	675	-	-
IM Bina Sdn. Bhd.				
Contract billing payable	2,179	7,727	-	-
Tofield Realty Development Corporation				
General mechanical and engineering	515	489	-	-
KPS Technology & Engineering LLC				
Administrative and other support-services	916	200	-	-
D. Key management personnel				
Directors				
- Fees	852	890	852	890
- Remuneration	3,379	3,125	2,839	2,611
- Employee benefits (including estimated monetary value of benefit-in-kind)	38	38	38	38
	4,269	4,053	3,729	3,539
Subsidiaries directors				
- Short-term employee benefits	10,261	7,726	-	-
Other key management personnel				
- Short-term employee benefits	6,136	4,658	-	-
	20,666	16,437	3,729	3,539

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

Significant related party balances related to the above transactions are disclosed in Notes 5, 10, 12, 19. There are no impairment loss and bad debts written off in respect of its amount due from related parties.

29. Financial instruments

29.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Fair value through profit or loss ("FVTPL");
- Held for trading ("HFT"), or
(c) Available-for-sale financial assets ("AFS"); and
(d) Financial liabilities measured at amortised cost ("FL").

31.12.2013	Carrying amount RM'000	L&R RM'000	FVTPL -HFT RM'000	AFS RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	18,045	10,018	5,287	2,740	-
Trade and other receivables	934,720	934,720	-	-	-
Derivative financial assets	6,531	-	5,164	-	1,367
Cash and cash equivalents	268,301	268,301	-	-	-
	1,227,597	1,213,039	10,451	2,740	1,367
Company					
Trade and other receivables	289,654	289,654	-	-	-
Cash and cash equivalents	26,617	26,617	-	-	-
	316,271	316,271	-	-	-

	Carrying amount RM'000	FL RM'000	FVTPL -HFT RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
Loans and borrowings	(947,021)	(947,021)	-	-
Trade and other payables	(582,336)	(582,336)	-	-
Derivative financial liabilities	(4,517)	-	(3,099)	(1,418)
	(1,533,874)	(1,529,357)	(3,099)	(1,418)
Company				
Trade and other payables	(528,828)	(528,828)	-	-
	(528,828)	(528,828)	-	-

29. Financial instruments (continued)

29.1 Categories of financial instruments (continued)

31.12.2012	Carrying amount RM'000	L&R RM'000	FVTPL -HFT RM'000	AFS RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	14,183	11,615	-	2,568	-
Trade and other receivables	903,916	903,916	-	-	-
Derivative financial assets	9,668	-	8,371	-	1,297
Cash and cash equivalents	191,910	191,910	-	-	-
	1,119,677	1,107,441	8,371	2,568	1,297
Company					
Amount due from a subsidiary	301,140	301,140	-	-	-
Trade and other receivables	348,082	348,082	-	-	-
Cash and cash equivalents	17,830	17,830	-	-	-
	667,052	667,052	-	-	-

	Carrying amount RM'000	FL RM'000	FVTPL -HFT RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
Loans and borrowings	(936,435)	(936,435)	-	-
Trade and other payables	(608,202)	(608,202)	-	-
Derivative financial liabilities	(8,815)	-	(7,574)	(1,241)
	(1,553,452)	(1,544,637)	(7,574)	(1,241)
Company				
Loans and borrowings	(301,140)	(301,140)	-	-
Trade and other payables	(525,735)	(525,735)	-	-
Derivative financial liabilities	(31)	-	(31)	-
	(826,906)	(826,875)	(31)	-

29. Financial instruments (continued)

29.1 Categories of financial instruments (continued)

1.1.2012	Carrying amount RM'000	L&R RM'000	FVTPL -HFT RM'000	AFS RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	14,088	10,000	-	4,088	-
Derivative financial assets	20,268	-	17,520	-	2,748
Trade and other receivables	845,915	845,915	-	-	-
Cash and cash equivalents	418,586	418,586	-	-	-
	1,298,857	1,274,501	17,520	4,088	2,748
Company					
Amount due from a subsidiary	351,330	351,330	-	-	-
Trade and other receivables	14,017	14,017	-	-	-
Cash and cash equivalents	622	622	-	-	-
	365,969	365,969	-	-	-

	Carrying amount RM'000	FL RM'000	FVTPL -HFT RM'000	Derivatives used for hedging RM'000
Financial liabilities				
Group				
Loans and borrowings	(1,144,284)	(1,144,284)	-	-
Trade and other payables	(524,062)	(524,062)	-	-
Derivative financial liabilities	(21,354)	-	(13,434)	(7,920)
	(1,689,700)	(1,668,346)	(13,434)	(7,920)
Company				
Loans and borrowings	(351,330)	(351,330)	-	-
Trade and other payables	(348,026)	(348,026)	-	-
Derivative financial liabilities	(475)	-	(475)	-
	(699,831)	(699,356)	(475)	-

29. Financial instruments (continued)

29.2 Net gains and losses arising from financial instruments

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Net gains/(losses) arising on:				
Fair value through profit or loss:				
- Held for trading ("FFEC")	2,065	3,551	-	-
Loans and receivables	27,894	25,116	22,518	22,949
Financial liabilities measured at amortised cost	(55,222)	(61,345)	(16,864)	(21,176)
	(25,263)	(32,678)	5,654	1,773

29.3 Financial risk management objectives and policies

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

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

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

29.4 Credit risk

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

29. Financial instruments (continued)

29.4 Credit risk (continued)

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

Policies and Processes

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

Contract Customers

Process & Specialised Equipment & Turnkey Contracts

Most orders are treated as onerous construction contracts, where billings are based on the progress milestones which typically are split into four or more stages of a project's life cycle. Large order such as EPC, billings are negotiated to closely mirror the cash flow requirements in contract execution. An advance from the customers would normally be required before the commencement of work, and similarly the customer would demand a Bank or Corporate Guarantee on its advancement made and/or as a form of guaranteeing performance. Customers' orders are usually components of a larger project which has secured financing. As such, credit risk exposure is typically low at the early and mid-stages of a project life cycle, but increase towards the last milestone payment arising from possible variation or contractual disputes. This tail-end risk is managed or mitigated with one or more of the following:

- Professional lien on goods and materials
- Transactional credit documents (i.e. Letter of Credit) on export delivery
- Contract customers are assessed on credit and sovereign nation risks where applicable on both quantitative and qualitative elements.
- Credit exposure is monitored on the aging of receivables, and the projects' progression and variations.

Financial institutions

The Group places its funds in Banks in over 18 countries in which it has business presence. The Group also enters into FOREX forward contracts with licensed financial institutions for hedging purposes. Credit risk is generally low as the counter parties are all reputable licensed institutions. Where financial derivatives are involved, mandatory ISDA agreements are incepted where necessary.

Financial Guarantees and Advances for Subsidiaries

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

The Group receives financial guarantees given by banks in managing exposure to credit risks. At the end of the reporting period, financial guarantees received by the Group amounted to RM11,538,000 (31.12.2012: RM28,863,000; 1.1.2012: RM18,134,000) in respect of RM427,388,000 (31.12.2012: RM375,791,000; 1.1.2012: RM337,465,000) trade receivables. The remaining balance of trade receivables are not secured by any collateral or supported by any other credit enhancements.

29. Financial instruments (continued)

29.4 Credit risk (continued)

Credit risk exposures and concentration

The Group's credit risks are mainly on financial assets relating to receivables, cash deposits and investments as summarised in the table below for both the Group and Company level.

	Maximum exposure		
	31.12.2013	31.12.2012	1.1.2012
Group	**RM'000**	**RM'000**	**RM'000**
Financial assets			
Trade receivables	427,388	375,791	337,465
Amount due from contract customers	449,191	490,177	449,179
Amount due from related parties, associates, and joint venture	10,014	7,714	17,698
Other receivables and deposits	48,127	30,234	41,573
Other investments	18,045	14,183	14,088
Derivative financial assets	6,531	9,668	20,268
Deposit with licensed bank	44,328	8,888	65,061
Deposit with financial institutions	-	-	9,986
Cash at bank balances	223,973	183,022	353,525
	1,227,597	1,119,677	1,308,843
Company			
Financial assets			
Amount due from subsidiaries	285,747	645,871	360,671
Amount due from related parties, associates, and joint venture	3,882	3,334	1,374
Other receivables and deposits	25	17	3,302
Deposit with licensed bank	11,958	-	-
Cash at bank balances	14,659	17,830	622
	316,271	667,052	365,969

29. Financial instruments (continued)

29.4 Credit risk (continued)

Receivables

Concentration of Credit Risk

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

	31.12.2013		31.12.2012		1.1.2012	
	RM'000	%	RM'000	%	RM'000	%
Asia & Oceania	307,489	35	358,517	41	362,878	46
Europe	512,560	58	463,349	54	370,743	47
Americas	56,530	7	44,102	5	53,023	7
	876,579	100	865,968	100	786,644	100

The Group uses aging analysis as the primary reporting tool to monitor the credit quality of the trade receivables. Trade receivables past due 60 days are monitored more regularly on the collection efforts.

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

Group	Gross RM'000	Impairment RM'000	Net RM'000
31.12.2013			
Not past due	264,959	-	264,959
Past due 0 - 30 days	62,358	-	62,358
Past due 31 - 60 days	31,654	-	31,654
Past due 61 - 120 days	22,759	-	22,759
Past due more than 120 days	70,923	(25,265)	45,658
	452,653	(25,265)	427,388
31.12.2012			
Not past due	209,973	-	209,973
Past due 0 - 30 days	53,429	-	53,429
Past due 31 - 60 days	21,874	-	21,874
Past due 61 - 120 days	36,080	-	36,080
Past due more than 120 days	103,038	(48,603)	54,435
	424,394	(48,603)	375,791

29. Financial instruments (continued)

29.4 Credit risk (continued)

Receivables (continued)

Concentration of Credit Risk (continued)

Group	Gross RM'000	Impairment RM'000	Net RM'000
1.1.2012			
Not past due	234,830	-	234,830
Past due 0 - 30 days	66,496	-	66,496
Past due 31 - 60 days	6,834	-	6,834
Past due 61 - 120 days	9,566	-	9,566
Past due more than 120 days	69,334	(49,595)	19,739
	387,060	(49,595)	337,465

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

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

	Group 2013 RM'000	Group 2012 RM'000
At 1 January	48,603	49,595
Impairment loss recognised	6,612	6,784
Impairment loss reversed	(10,014)	(5,561)
Impairment loss written off	(19,150)	(398)
Effect on the movement of exchange rate	(786)	(1,817)
At 31 December	25,265	48,603

29. Financial instruments (continued)

29.5 Liquidity risk

The Group's exposure to liquidity risk primarily arises from its capabilities to meet its financial obligations, principally its trade payables, loans and borrowings, as and when it falls due. The Group's liquidity risk management objective is to ensure that all foreseeable funding commitments can be met as and when due in a cost-effective manner.

Policies and Processes

The Group leverages on the Company as the public listed parent company to support 2 (two) of its fully owned subsidiaries to play a central treasury and liquidity management role to better manage its weighted-average-cost-of funds, whilst day-to-day operational liquidity needs are decentralised at the Business Unit level. Foreign Business Units are encouraged to seek localised trade financing facilities in their respective currencies where appropriate.

The Group actively manages its operating cash-flows and the availability of funding so as to ensure all operating, investing and financing needs are met. It manages liquidity risks with a combination of the following policies and methods:

- Maintain a diversified range of funding sources with adequate back-up facilities
- Maintain debt financing and servicing plan
- Maintain medium to long term cash-flow planning incorporating funding positions and requirements of all its subsidiaries
- Monitor balance sheet liquidity ratios against internal threshold
- Manage working capital and optimize cash conversion cycle
- Manage maturity profile of both financial and non-financial liabilities

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Liquidity Risk

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

Maturity analysis

Group

31.12.2013	**Carrying amount RM'000**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows RM'000**	**Less than 1 year RM'000**	**1 - 2 years RM'000**	**2 - 5 years RM'000**	**More than 5 years RM'000**
Non-derivative financial liabilities							
Term loans - secured							
- Euro	33,722	2.72% - 5.50%	37,755	5,804	5,646	15,988	10,317
- RM	131,841	6.33% - 17.18%	137,474	37,311	58,748	41,415	-
- USD	87,929	5.10% - 6.25%	92,489	28,198	64,291	-	-
- CAD	28,661	2.15% - 18.00%	31,922	31,922	-	-	-
Term loans - unsecured							
- RMB	8,936	7.00%	9,569	9,569	-	-	-
- Euro	339,013	1.40% - 5.00%	365,202	100,844	97,716	166,642	-
Revolving credit - unsecured							
- RM	77,000	3.78% - 6.25%	77,975	77,975	-	-	-
Bill payables - unsecured							
- USD	120,882	1.27% - 3.70%	121,297	121,297	-	-	-
- Euro	60,919	1.25% - 2.60%	61,335	61,335	-	-	-
- RM	13,983	3.78% - 6.25%	13,997	13,997	-	-	-
- SGD	316	8.25% - 9.25%	318	318	-	-	-
- THB	220	10.75% - 11.75%	220	220	-	-	-
Hire purchase and lease creditors	36,885	1.88% - 6.25%	40,404	15,274	9,723	13,928	1,479

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 31.12.2013	Carrying amount RM'000	Contractual interest/ profit rates per annum %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Non-derivative financial liabilities (continued)							
Bank overdraft							
- RM	4,874	7.35%	5,232	5,232	-	-	-
- AUD	1,840	10.58%	2,034	2,034	-	-	-
Trade and other payables	582,336		582,336	527,193	55,143	-	-
	1,529,357		1,579,559	1,038,523	291,267	237,973	11,796
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
Outflow	-		335,069	335,069	-	-	-
Inflow	(1,373)		(336,442)	(336,442)	-	-	-
	1,527,984		1,578,186	1,037,150	291,267	237,973	11,796

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 31.12.2012	Carrying amount RM'000	Contractual interest/ profit rates per annum %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Non-derivative financial liabilities							
CP/MTN	95,000	5.30 - 6.00	100,457	100,457	-	-	-
Term loans - secured							
- Euro	34,663	2.81 - 5.50	40,787	5,500	5,363	15,117	14,807
- RM	344,368	5.70 - 6.00	371,680	321,853	13,513	36,314	-
Term loans - unsecured							
- RMB	11,337	7.00 - 7.56	12,160	12,160	-	-	-
- CAD	17,506	2.25	17,900	8,538	9,362	-	-
- Euro	85,893	1.40 - 5.00	89,836	88,629	402	805	-
- BRL	2,914	23.59	3,601	3,601	-	-	-
Revolving credit - unsecured							
- RM	90,500	4.47 - 6.00	92,215	92,215	-	-	-
Bills payable - unsecured							
- USD	181,650	1.27 - 4.12	181,650	181,650	-	-	-
- Euro	31,729	1.23 - 3.30	31,729	31,729	-	-	-
- RM	6,967	3.78 - 6.25	6,967	6,967	-	-	-
Hire purchase and lease creditors	27,438	1.88 - 19.42	30,861	7,910	7,105	13,439	2,407

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 31.12.2012	Carrying amount RM'000	Contractual interest/ profit rates per annum %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Non-derivative financial liabilities (continued)							
Bank overdraft							
- BRL	1	14.52 - 17.58	1	1	-	-	-
- RM	4,481	7.35 - 17.58	4,810	4,810	-	-	-
- AUD	1,988	11.70	1,988	1,988	-	-	-
Trade and other payables	608,202		608,202	608,202	-	-	-
	1,544,637		1,594,844	1,476,210	35,745	65,675	17,214
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
Outflow	-		554,066	554,066	-	-	-
Inflow	(362)		(554,428)	(554,428)	-	-	-
Interest rate swap (gross settled):							
Outflow	31		2,040	2,040	-	-	-
Inflow	-		(2,009)	(2,009)	-	-	-
	1,544,306		1,594,513	1,475,879	35,745	65,675	17,214

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Group

1.1.2012	**Carrying amount RM'000**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows RM'000**	**Less than 1 year RM'000**	**1 - 2 years RM'000**	**2 - 5 years RM'000**	**More than 5 years RM'000**
Non-derivative financial liabilities							
CP/MTN	190,000	3.80 - 5.80	198,554	150,513	48,041	-	-
Term loans - secured							
- Euro	39,283	2.81 - 5.50	52,498	5,712	5,672	19,891	21,223
- RM	351,330	5.31 - 5.71	389,948	117,504	113,276	159,168	-
Term loans - unsecured							
- RMB	6,044	7.40	6,492	4,328	2,164	-	-
- CAD	25,538	2.10 - 2.25	26,094	7,984	7,984	10,126	-
- Euro	12,173	1.17 - 3.10	12,790	11,153	409	1,228	-
- BRL	2,424	12.68 - 23.59	2,525	2,525	-	-	-
- USD	3,249	5.00	3,412	3,412	-	-	-
Revolving credit - unsecured							
- Euro	112,816	2.70 - 4.20	114,281	114,281	-	-	-
- RM	158,000	3.40 - 5.00	159,009	159,009	-	-	-
Bills payable - unsecured							
- USD	164,712	0.83 - 1.85	166,056	166,056	-	-	-
- Euro	15,239	0.85 - 2.00	15,410	15,410	-	-	-
- RM	27,112	3.27 - 3.71	27,112	27,112	-	-	-
Hire purchase and lease creditors	19,102	4.22 - 19.42	21,695	6,397	4,365	7,441	3,492

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Group 1.1.2012	Carrying amount RM'000	Contractual interest/ profit rates per annum %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Non-derivative financial liabilities (continued)							
Bank overdraft							
- BRL	17,262	14.52-24.60	19,969	19,969	-	-	-
Trade and other payables	524,062		524,062	503,360	20,702	-	-
	1,668,346		1,739,907	1,314,725	202,613	197,854	24,715
Derivative financial liabilities							
Forward exchange contracts (gross settled):							
Outflow	686		699,021	699,021	-	-	-
Inflow	-		(698,335)	(698,335)	-	-	-
Interest rate swap (gross settled):							
Outflow	475		25,086	25,086	-	-	-
Inflow	-		(24,611)	(24,611)	-	-	-
	1,669,507		1,741,068	1,315,886	202,613	197,854	24,715

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Company

31.12.2013	**Carrying amount RM'000**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows RM'000**	**Less than 1 year RM'000**	**1 - 2 years RM'000**	**2 - 5 years RM'000**	**More than 5 years RM'000**
Non-derivative financial liabilities							
Trade and other payables	528,828		528,828	3,532	525,296	-	-
31.12.2012							
Non-derivative financial liabilities							
Term loans - secured							
- RM	301,140	5.70 - 5.71	321,853	321,853	-	-	-
Trade and other payables	525,735	-	525,735	41,794	-	483,941	-
	826,875		847,588	363,647	-	483,941	-
Derivative financial liabilities							
Interest rate swap (gross settled):							
Outflow	31		2,040	2,040	-	-	-
Inflow	-		(2,009)	(2,009)	-	-	-
	826,906		847,619	363,678	-	483,941	-

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis (continued)

Company **1.1.2012**	**Carrying amount RM'000**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows RM'000**	**Less than 1 year RM'000**	**1 - 2 years RM'000**	**2 - 5 years RM'000**	**More than 5 years RM'000**
Non-derivative financial liabilities							
Term loans - secured							
- RM	351,330	5.31-5.71	389,948	117,504	113,276	159,168	-
Trade and other payables	348,026		348,026	348,026	-	-	-
	699,356		737,974	465,530	113,276	159,168	-
Derivative financial liabilities							
Interest rate swap (gross settled):							
Outflow	475		25,086	25,086	-	-	-
Inflow	-		(24,611)	(24,611)	-	-	-
	699,831		738,449	466,005	113,276	159,168	-

29. Financial instruments (continued)

29.6 Foreign currency risk

The Group operates in 18 countries and is exposed to various currencies that gives rise to foreign exchange (FX) risk from the translation of its foreign investments and from FX transactions on its sales and purchases denominated in foreign currency. The Group's main foreign currency exposure is in USD, EUR and MYR. MYR exposure is attributed to certain of the Company's subsidiaries located in Malaysia but adopting their functional currency in USD and EUR respectively. The Group's foreign currency risk management objective is to minimise transactional FOREX exposure that gives rise to economic impact.

<u>Policies and Processes</u>

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

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

ii) Net investment in Foreign Operations.

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

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

29. Financial instruments (continued)

29.6 Foreign currency risk (continued)

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

	Denominated in		
Group	***USD***	***Euro***	***RM***
31.12.2013	**RM'000**	**RM'000**	**RM'000**
Trade receivables	36,213	4,279	1,419
Cash at bank balances	6,149	1,151	1,779
Trade payables	(13,963)	(3,631)	(34,842)
Other payables and accruals	(62)	-	(1,565)
Bills payable	(30,651)	(57,763)	(12,637)
Forward exchange contracts	377	2,976	(768)
Net exposure in the statement of financial position	(1,937)	(52,988)	(46,614)
31.12.2012			
Trade receivables	23,929	28,259	2,230
Cash at bank balances	542	1,927	5,631
Trade payables	(15,386)	(15,228)	(34,154)
Other payables and accruals	(58)	-	(20,181)
Bills payable	(51,583)	(26,839)	(9,736)
Forward exchange contracts	42	(739)	(11)
Net exposure in the statement of financial position	(42,514)	(12,620)	(56,221)
1.1.2012			
Trade receivables	21,887	23,409	2,725
Cash at bank balances	11,608	13,987	10,182
Trade payables	(3,399)	(1,459)	(27,759)
Other payables and accruals	(535)	-	(378)
Bills payable	(46,767)	(14,802)	(26,459)
Forward exchange contracts	6,317	(15,880)	(764)
Net exposure in the statement of financial position	(10,889)	5,255	(42,453)

29. Financial instruments (continued)

29.6 Foreign currency risk (continued)

Currency risk sensitivity analysis

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

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

	Equity		**Profit or loss**	
	2013	**2012**	**2013**	**2012**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**
USD	96,406	21,862	(73)	(1,594)
EURO	63,559	55,312	(1,987)	(473)
RM	-	-	(1,748)	(2,108)

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

29.7 Interest rate risk

The Group's interest rate risk arises from its interest bearing financial instruments that could impact fair value and future cash-flows due to fluctuation in market interest rates. The Group's objective on interest rate risk management is to achieve a balance in re-pricing risk and the optimisation of pricing whilst ensuring sufficient liquidity to meet funding needs.

Policies and Processes

Interest bearing financial assets are mainly temporary surpluses or funds held for liquidity purposes and are placed on short-term or on demand basis. Interest bearing financial liabilities are mixture of short term trade/ credit facilities with re-pricing exposure, and long-term loans with fixed pricing. The Group constantly reviews its portfolio of interest bearing financial liabilities with the view to mitigate as much as possible its re-pricing risk taking into account the nature and requirement of its businesses, and availability from issuers of such financial liabilities.

29. Financial instruments (continued)

29.7 Interest rate risk (continued)

Exposure to interest rate risk

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

	Group			Company		
	31.12.2013	**31.12.2012**	**1.1.2012**	**31.12.2013**	**31.12.2012**	**1.1.2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Fixed rate instruments						
Financial assets	44,328	8,888	75,048	-	-	-
Financial liabilities	(76,426)	(283,980)	(337,552)	-	-	-
	(32,098)	(275,092)	(262,504)	-	-	-
Floating rate instruments						
Financial assets	-	-	-	-	301,140	351,330
Financial liabilities	(870,595)	(652,455)	(806,732)	-	(301,140)	(351,330)
	(870,595)	(652,455)	(806,732)	-	-	-

Interest rate risk sensitivity analysis

(a) *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

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

A change of 25 basis points (bp) in interest rates at the end of the reporting period would have increased (decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

29. Financial instruments (continued)

29.7 Interest rate risk (continued)

Interest rate risk sensitivity analysis (continued)

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

	Profit or loss	
	25 bp increase	**25 bp (decrease)**
Group	**RM'000**	**RM'000**
2013		
Floating rate instruments	2,176	(2,176)
Cash flow sensitivity (net)	2,176	(2,176)
2012		
Floating rate instruments	1,054	(1,054)
Interest rate swap	23	(23)
Cash flow sensitivity (net)	1,077	(1,077)

29.8 Cash flow hedge

The Group entered into forward cash flow hedge of its expected proceeds/ payments from/to accounts receivables and accounts payables.

The following depicts the expected cash flow streams associated with the hedges undertaken and period affecting profit or loss:

Group	**Carrying amount RM'000**	**Expected cash flows RM'000**	**Under 1 year RM'000**	**1 - 2 years RM'000**
2013				
Proceeds from accounts receivables				
- inflow	29	97,203	94,902	2,301
- outflow	-	(97,174)	(94,967)	(2,207)
Proceeds from accounts payables				
- inflow	221	11,448	11,448	-
- outflow	-	(11,227)	(11,227)	-

29. Financial instruments (continued)

29.8 Cash flow hedge (continued)

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000
2012				
Proceeds from accounts receivables				
- inflow	563	172,237	151,663	20,574
- outflow	-	(171,674)	(150,768)	(20,906)
Proceeds from accounts payables				
- inflow	123	5,645	5,645	-
- outflow	-	(5,522)	(5,522)	-

During the year, net gain of RM119,532 (2012: loss of RM1,815,627) was recognised in the other comprehensive income. An ineffective net gain of RM778,813 (2012: RM2,910,336) was recognised in profit or loss during the year.

29.9 Fair value of financial instruments

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

The carrying amounts of the floating rate term loans and amount due from subsidiary approximate fair values as they are subject to variable interest rates which in turn approximate the current market interest rates for similar loans at the end of the reporting period.

It was not practical to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices, inability to estimate fair value without incurring excessive costs and immaterial in the opinion of the Management.

Interest rates used to determine fair value

	31.12.2013	31.12.2012	1.1.2012
Fixed rate term loans	2.15% - 18.00%	3.10% - 23.59%	3.10% - 5.00%
Finance lease liabilities			
- Fixed rate	1.88% - 6.00%	1.88% - 19.42%	4.90% - 19.42%

29. Financial instruments (continued)

29.9 Fair value of financial instruments (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2013										
Financial assets										
Available-for-sale	-	70	-	70	-	-	-	-	70	70
Redeemable Convertible Preference Shares	-	-	-	-	-	-	16,532	16,532	16,532	10,018
Quoted shares	5,287	-	-	5,287	-	-	-	-	5,287	5,287
Forward exchange contracts	-	6,531	-	6,531	-	-	-	-	6,531	6,531
	5,287	6,601	-	11,888	-	-	16,532	16,532	28,420	21,906
Financial liabilities										
Forward exchange contracts	-	(4,517)	-	(4,517)	-	-	-	-	(4,517)	(4,517)
Fixed rate term loan	-	-	-	-	-	(43,648)	-	(43,648)	(43,648)	(43,644)
Finance lease liabilities	-	-	-	-	-	(13,592)	-	(13,592)	(13,592)	(12,398)
Long term payable	-	-	-	-	-	(38,524)	-	(38,524)	(38,524)	(41,355)
	-	(4,517)	-	(4,517)	-	(95,764)	-	(95,764)	(100,281)	(101,914)

29. Financial instruments (continued)

29.9 Fair value of financial instruments (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value*	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Total		
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2012							
Financial assets							
Available-for-sale	-	70	-	70	-	70	70
Redeemable Convertible Preference Shares	-	-	-	-	11,615	11,615	11,615
Forward exchange contracts	-	9,668	-	9,668	-	9,668	9,668
	-	9,738	-	9,738	11,615	21,353	21,353
Financial liabilities							
Interest rate swaps	-	(31)	-	(31)	-	(31)	(31)
Fixed rate term loan	-	-	-	-	(4,449)	(4,449)	(4,444)
Finance lease liabilities	-	-	-	-	(7,800)	(7,800)	(7,720)
Forward exchange contracts	-	(8,784)	-	(8,784)	-	(8,784)	(8,784)
	-	(8,815)	-	(8,815)	(12,249)	(21,064)	(20,979)
Company							
31 December 2012							
Financial assets							
Interest rate swaps	-	(31)	-	(31)	-	(31)	(31)

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

29. Financial instruments (continued)

29.9 Fair value of financial instruments (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value*	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Total		
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1 January 2012							
Financial assets							
Available-for-sale	-	100	-	100	-	100	100
Redeemable Convertible Preference Shares	-	-	-	-	10,000	10,000	10,000
Forward exchange contracts	-	20,268	-	20,268	-	20,268	20,268
	-	20,368	-	20,368	10,000	30,368	30,368
1 January 2012							
Financial liabilities							
Interest rate swaps	-	(475)	-	(475)	-	(475)	(475)
Fixed rate term loan	-	-	-	-	(5,170)	(5,170)	(5,166)
Finance lease liabilities	-	-	-	-	(8,083)	(8,083)	(8,061)
Forward exchange contracts	-	(20,879)	-	(20,879)	-	(20,879)	(20,879)
	-	(21,354)	-	(21,354)	(13,253)	(34,607)	(34,581)
Company							
1 January 2012							
Financial assets							
Interest rate swaps	-	(475)	-	(475)	-	(475)	(475)

29. Financial instruments (continued)

29.9 Fair value of financial instruments (continued)

Policy on transfer between levels
The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value
Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value
Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Derivatives

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

Non-derivative financial liabilities

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

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2012: no transfer in either directions).

Level 3 fair value
Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

30. Capital management

The Group's capital management objective is to ensure a strong and sustainable capital base that can support the current and future business needs of the Group.

In support of that, the Group aims to manage within limit of existing debt-equity ratio (DER) covenant.

As at 31 December 2013, the Group recorded a DER at 0.46 (2012: 0.51) as compared to the financial covenants of not exceeding 1.00 (2012: 1.75)times. The Group is also required to maintain certain financial covenant ratios as disclosed in Note 16 to the financial statements.

31. Operating segment

The Group's resources allocation is assessed on a quarterly basis or as needed basis in accordance to the business performance and requirements of the respective geographical's operating unit as reviewed and determined by the Group's Chief Operating Decision Maker (CODM) whom is also the Chief Executive Officer of the Group. Hence, segment information is presented by geographical locations that the Group operates in. The format of the geographical segments is based on the Group's operation management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Reporting on segmental profit, assets and liabilities include items directly attributable to geographical segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The segments are classified into geographical presence as follows:

Geographical segment	**Countries**
Asia & Oceania	Malaysia, China, India, Singapore, Brunei Darussalam, Indonesia, South Africa, Australia and Uzbekistan
Europe	British Virgin Islands, United Arab Emirates, Netherlands, Saudi Arabia, Italy, United Kingdom and Germany
America	United States of America and Canada

31. Operating segment (continued)

Geographical segments

	Asia and Oceania		Europe		America		Consolidated	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Revenue	638,918	943,169	1,268,144	1,374,330	76,944	68,752	1,984,006	2,386,251
Cost of sales	(529,686)	(800,697)	(1,036,335)	(1,125,365)	(62,269)	(59,022)	(1,628,290)	(1,985,084)
Gross profit	109,232	142,472	231,809	248,965	14,675	9,730	355,716	401,167
Administration expenses and others	(74,712)	(119,975)	(170,095)	(139,780)	(12,246)	(4,293)	(257,053)	(264,048)
Operating profit	34,520	22,497	61,714	109,185	2,429	5,437	98,663	137,119
Add: Depreciation and amortisation	24,224	22,114	70,152	64,796	5,560	5,307	99,936	92,217
Segment profit	58,744	44,611	131,866	173,981	7,989	10,744	198,599	229,336
Share of loss of equity-accounted investees, net of tax							(3,504)	(144)
Less: Depreciation and amortisation							(99,936)	(92,217)
							95,159	136,975
Financing costs							(53,302)	(53,445)
Interest income							2,700	3,758
Profit before tax							44,557	87,288

31. Operating segment (continued)

Geographical segments (continued)

	Asia and Oceania			Europe			America			Consolidated		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Segment assets	1,203,978	1,186,725	1,250,737	2,736,068	2,541,343	2,505,734	103,839	123,252	185,243	4,043,885	3,851,320	3,941,714
Segment liabilities	990,047	1,284,667	1,482,577	937,423	643,945	706,768	56,816	98,173	136,428	1,984,286	2,026,785	2,325,773

	Asia and Oceania		Europe		America		Consolidated	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Capital expenditure	11,320	14,744	12,063	57,016	1,743	2,328	25,126	74,088
Depreciation charged to income statements	9,538	9,359	1,842	2,092	276	173	11,656	11,624
Non-cash (income)/ expenses other than depreciation	(10,438)	(9,859)	34,082	18,805	-	(10,995)	23,644	(2,049)

32. Subsidiaries

The principal activities of the subsidiaries, their places of incorporation and the interests of KNM Group Berhad are as follows:

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest		
			31.12.2013	31.12.2012	1.1.2012
Subsidiaries of the Company			%	%	%
KNM Process Systems Sdn. Bhd.	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.	Malaysia	100	100	100
KNM International Sdn. Bhd.	Provision of management, technical advisory, licence and trademark Services to international related companies and related international investments.	Malaysia	100	100	100
KNM Capital Sdn. Bhd.@	Provision of funding and treasury services and all related functions.	Malaysia	100	100	100
KNM Management Services Sdn. Bhd.	Provision of qualifying services under the overseas head quarters (OHQ) concept which includes management, treasury, financial advisory, technical support, marketing, business development and procurement and all related functions.	Malaysia	100	100	100
KNM Renewable Energy Sdn. Bhd.@	Provision of project management, project business development and technical services.	Malaysia	100	100	100
KNM Capital Labuan Limited	Provision of funding and treasury services and all related functions.	Labuan	100	100	100
KNM Services (Singapore) Pte. Ltd. ^$	Dormant.	Singapore	100	100	100
KNM China Pte Limited ^$	Investment holding.	Hong Kong	100	100	100

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of the Company (continued)					
Litwin Asia Pacific Sdn. Bhd. @	Investment holding.	Malaysia	51	51	51
KNM Eurasia Sdn. Bhd. **$	Investment holding.	Malaysia	100	100	100
KNM HMS Energy Sdn. Bhd.	Dormant.	Malaysia	70	-	-
Prestige International Ltd. @	Dormant.	Malaysia	100	-	-
Subsidiaries of KNM Eurasia Sdn. Bhd.					
KNM Process Systems (Kazakhstan) Sdn. Bhd. **$	Dormant.	Malaysia	100	100	100
KNM Process Systems (Uzbekistan) Sdn. Bhd. **$	Dormant.	Malaysia	100	100	100
KNM Process Systems (Turkmenistan) Sdn. Bhd. **$	Dormant.	Malaysia	100	100	100
Subsidiaries of KNM Process Systems Sdn. Bhd.					
KNM OGPET (East Coast) Sdn. Bhd. @	Property investment.	Malaysia	100	100	100
Duraton Engineering Sdn. Bhd. @	Provision of project manpower, engineering, non-destructive testing and technical consultancy services.	Malaysia	100	100	100
Perwira Awan Sdn. Bhd.	Property investment.	Malaysia	100	100	100
KNM Technical Services Sdn.Bhd.@	Provision of technical services and other associated services related to the oil, gas and petrochemical industries.	Malaysia	100	100	100

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of KNM Process Systems Sdn. Bhd. (continued)					
Sumber Amantech Sdn. Bhd.	Provision of project management and technical services.	Malaysia	100	100	100
KNM Exotic Equipment Sdn. Bhd.	Design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries.	Malaysia	100	100	100
KNM Europa BV ^	Investment holding.	Netherlands	100	100	100
KNM Pty. Ltd. *@	Design, manufacture, sale and service of heat exchange systems.	Australia	100	100	100
BORSIG Boiler Systems Sdn. Bhd. @	Dormant.	Malaysia	100	100	100
BORSIG Industrial Services Sdn. Bhd. @	Dormant.	Malaysia	100	100	100
Deutsche KNM GmbH *	Investment holding.	Germany	100	100	100
KNM Sistemas de Processamento do Brasil Ltda #	Investment holding.	Brazil	-	100	100
KNM OGPET (Sabah) Sdn. Bhd. **	Dormant.	Malaysia	80	80	80
KNM-DP Fabricators Sdn. Bhd. **@	Dormant.	Malaysia	86	86	86
Subsidiary of KNM-DP Fabricators Sdn. Bhd.					
KNM-DP Harta Bina Sdn. Bhd. **$	Dormant.	Malaysia	93	93	93

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of KNM China Pte Limited					
BORSIG Valves (China) Pte Limited ^$	Dormant.	Hong Kong	100	100	100
BORSIG Compression (China) Pte limited ^$	Dormant.	Hong Kong	100	100	100
Subsidiaries of KNM Europa BV					
FBM Hudson Italiana SpA *	Design and manufacture of air-cooled heat exchangers, specialty shell and tube heat exchangers and process gas waste heat boilers for the oil, gas, petrochemical and desalination industries.	Italy	100	100	100
FBM Icoss S.r.l *	Design and construction of fully welded plate type heat exchanger plates, bundle exchangers and jacketed pressure vessels for different fields such as chemical, petrochemical, textile pharmaceutical, food industry, aerospace and research industries.	Italy	100	100	100
KNM Corporation *@	Investment holding.	Canada	100	100	100
KNM Project Services Limited ^@	Project management and services and provision of process technology for oil and gas, biomass, biofuels, waste to energy and power plants as well as provision of turnkey services including operation and maintenance services.	United Kingdom	100	100	100
KNM Technical Services LLC ^ @	Dormant.	Uzbekistan	100	100	-

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest		
			31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of KNM Corporation					
KNM Process Equipment Inc *@	Design, manufacture, procurement and manufacturing of process equipment, including without limitation pressure vessels, reactors, column and towers, drums, heat exchangers, air fin coolers, process gas waste heat boilers, specialised shell, tube heat exchangers, condensers, spheres, process tanks, mounded bullets, process skid packages and turnkey storage facilities for the oil, gas, petrochemicals and mineral processing industries in Canada and the North America region.	Canada	100	100	100
KNM Industries Inc *@	An asset holding company and shall own the land, manufacturing plant and machinery in relation to the Group's manufacturing facility in Edmonton, Alberta, Canada.	Canada	100	100	100
KPS Inc *@	Investment holding.	Canada	100	100	100
Subsidiary of KPS Inc					
KPS Technology & Engineering LLC *@	Provision of sulphur removal and recovery related services to clients in the oil, gas and energy/ power industries in relation to sulphur removal and recovery technology.	United States of America	78	60	60
KPS Technology Group LLC *@	Provision of sulphur removal and recovery related services to clients in the oil, gas and energy/power industries in relation to sulphur removal and recovery technology.	United States of America	100	-	-

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest		
			31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of KNM Pty Ltd					
W. E. Smith Engineering Pty Ltd *@	Thermal and mechanical design, drafting, manufacture of shell and tube heat exchangers, vessels, columns and feed water heaters.	Australia	100	100	100
HEA Australia Pty. Ltd. *@	Manufacture of air-cooled, shell and tube, and plate heat exchangers, vessels and columns.	Australia	100	100	100
PT Heat Exchangers Indonesia *@	Manufacture of air-cooled, shells, tube plates, frame heat exchangers, vessels and columns.	Indonesia	100	100	100
Subsidiary of KNM Exotic Equipment Sdn. Bhd.					
KMK Power Sdn. Bhd. @	Investment holding.	Malaysia	100	100	100
Subsidiary of Deutsche KNM GmbH					
BORSIG Beteiligungs verwaltungsgesellschaft mbH *	Investment holding.	Germany	100	100	100
Subsidiary of BORSIG Beteiligungsverwaltungsgesellschaft mbH					
BORSIG GmbH *	Advisory and administration services as well as acquisition of and holding shares in other companies on behalf and or its own account, in particular for and to companies of the BORSIG Group.	Germany	100	100	100
Subsidiaries of BORSIG GmbH					
BORSIG Process Heat Exchanger GmbH *	Processing, planning, fabrication and distribution of and the trading with machines, assets, apparatuses and miscellaneous components, particularly for generating plant, petrochemical and chemical industries.	Germany	100	100	100

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of BORSIG GmbH (continued)					
BORSIG ZM Compression GmbH *	System engineering, industrial fabrication, assembly services as well as the sale of machines and constructions of compressors, containers, silo and conveyor technique.	Germany	100	100	100
BORSIG Membrane Technology GmbH *	Processing, planning, fabrication and distribution of and trading with machines and construction of apparatuses and miscellaneous components in the field of membrane technique.	Germany	100	100	100
BORSIG Service GmbH *	Provides installation, maintenance and other industrial services of machines and construction of apparatuses and other components.	Germany	100	100	100
BORSIG Boiler Systems GmbH *	Planning, delivery, installation, and implementation of constructions for generating plants as well as provision of maintenance and other services for such constructions.	Germany	100	100	100
Subsidiary of BORSIG Membrane Technology GmbH					
GMT Membrantechnik GmbH *	Development, processing and distribution of membranes, membrane modules and membrane components.	Germany	51	51	51
Subsidiary of BORSIG ZM Compression GmbH					
BORSIG Compressor Parts GmbH *	Development, production and distribution of valves, compressor parts, monitoring systems for compressors, provision of maintenance and repair works of compressors and other assets.	Germany	100	100	100

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of KNM Sistemas de Processamento do Brasil Ltda					
KNM Industrial Ltda #	Design, fabrication, assembly and erection of tanks, spheres, storage systems, structural systems, piping and ducting systems for oil, gas and industrial plants.	Brazil	-	100	100
KNM Servicos Ltda #	Provision of construction, management services, mechanical assembly and erection works, electrical, instrumentation works and maintenance services for oil, gas and industrial plants.	Brazil	-	100	100
KNM Equipamentos SA #	Design, manufacture and commissioning of process equipment, boilers, transport, and other industrial equipment for oil, gas and industrial plants.	Brazil	-	100	100
Subsidiaries of KNM International Sdn. Bhd.					
KNM Overseas (China) Sdn. Bhd. @	Investment holding.	Malaysia	100	100	100
KNM Global Ltd.	Provision of management, procurement, business development, technical advisory and marketing services.	British Virgin Islands	100	100	100
KNM Oil & Gas (B) Sdn. Bhd. ^$	Dormant.	Brunei Darussalam	100	100	100
KNM Engineering Services Private Limited ^$	Design, engineering, technical and project management services in relation to process equipment, plant facilities and general facilities for the oil, gas, petrochemicals, minerals processing and general industries. The Company has ceased operations.	India	100	100	100
PT KPE Industries ^	An assets holding company and shall own the land, manufacturing plant and machinery in relation to the Group's intended manufacturing facility at the Kabil Industrial Estate in Batam, Indonesia.	Indonesia	100	100	100

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiaries of KNM International Sdn. Bhd.(continued)					
Saudi KNM Ltd. *@	Production of platforms, towers, columns, pressure pipe, large barrels, boilers, thermal transformers, large tanks and cooling fans.	Saudi Arabia	51	51	51
FBM - KNM FZCO *	Design and manufacture of air-cooled heat exchangers, specialty shell and tube heat exchangers and process gas waste heat boilers for the oil, gas, petrochemical and desalination industries.	United Arab Emirates	100	100	100
Kimma Thai Co. Ltd. **	Investment holding.	Thailand	49	49	49
Subsidiary of Kimma Thai Co. Ltd.					
KNM Projects (Thailand) Co. Ltd. **	Operate the business of providing the services relating to the arrangement of design, engineering, procurement, construction testing and other kinds of services relating to oil, gas, petrochemical, minerals, biofuel and energy industries.	Thailand	74	74	74
Subsidiary of KNM Overseas (China) Sdn. Bhd.					
KNM Special Process Equipment (Changshu) Co. Ltd. **	Design, manufacture, assembly, commissioning and maintenance of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies for the oil, gas and petrochemical industries within the China market.	China	100	100	100

32. Subsidiaries (continued)

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective ownership interest and voting interest 31.12.2013 %	31.12.2012 %	1.1.2012 %
Subsidiary of KNM Renewable Energy Sdn. Bhd.					
CNI Engineering & Construction Malaysia Sdn. Bhd. *(formerly known as KNM-CIW Sdn. Bhd.)* @	Dormant.	Malaysia	100	100	100
Subsidiary of KMK Power Sdn. Bhd.					
Poplar Investments Limited ^@	Property investment.	Isle of Man	100	100	-
Subsidiary of KNM Project Services Limited					
Energy Park Investments Limited #	Investment holding	United Kingdom	-	80	-
Subsidiary of Energy Park Investments Limited					
Energy Park Peterborough Limited #	Building a power station for renewable energy	United Kingdom	-	80	-

For financial year 2013:-

* Audited by a member firm of KPMG.

** Audited by another firm of accountants.

@ The financial statements of these subsidiaries are prepared on a going concern basis as the Group will provide the necessary financial support, if required.

^ Consolidated using management accounts as at 31 December 2013.

\# Disposed during the year.

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

Although the Group owns less than half of the ownership interest in Kimma Thai Co. Ltd. and less than half of the voting power of these entities, the Directors have determined that the Group controls these entities. The Group controls Kimma Thai Co. Ltd. by virtue of an agreement with its other investor; the Group has de facto control over Kimma Thai Co. Ltd., on the basis that the Group benefited the return generated from the day to day operating activities.

33. Acquisition of subsidiary and non-controlling interest

In prior financial year, the Group acquired 100% interest in Poplar Investments Limited ("PIL") for a cash consideration of RM128,952,000. The principal activities of the subsidiary acquired are shown in Note 32 of the financial statements. Had the acquisition occurred on 1 January 2012, the acquisition would have no significant effect to the consolidated revenue and consolidated profit for the year.

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

	Pre-acquisition carrying amounts RM'000	**Fair value adjustments RM'000**	**Recognised values on acquisitions RM'000**
Property, plant and equipment (Note 3)	128,952	-	128,952
Payables and accruals	(87,513)	-	(87,513)
Net identifiable assets and liabilities	41,439	-	41,439
Consideration paid, satisfied in cash			41,439
Settlement of liabilities			87,513
Net cash outflow			128,952

34. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		
	31.12.2013 RM'000	**31.12.2012 RM'000**	**1.1.2012 RM'000**
Less than one year	468	541	201
More than one year	259	696	651
	727	1,237	852

The Group leases computer hardware and software under operating leases. The lease typically runs for a period of 2 years. The lease does not include contingent rental.

35. Significant events during the year

35.1 KPS Inc., a wholly-owned Canadian subsidiary of KNM, had on 2 January 2013 incorporated a new subsidiary, KPS Technology Group LLC in Houston, Texas for a total cash consideration of USD2.00 only.

35.2 On 4 June 2013, the Company's wholly owned subsidiary, KNM Project Services Limited ("KPSL"), had disposed of its entire 800 ordinary shares (representing 80% equity interest) in Energy Park Investments Limited ("EPIL") to Green Energy Worldwide Corporation ("GEWC") for a total cash consideration of GBP800.00 (equivalent to RM3,786.80 based on GBP1 : RM4.7335) only ("Consideration").

35.3 On 25 July 2013, KNM Process Systems Sdn. Bhd. ("KNMPS") and KNM International Sdn. Bhd. ("KNMI") (hereinafter collectively referred to as the "Vendors") has entered into a Sale and Purchase Agreement with Telcon Telecomunicações E Informatica, LTDA (the "Purchaser") for the disposal of the Vendors' entire shareholding in the following subsidiaries (hereinafter collectively referred to as "KNM's Brazilian Group of Companies") for a total cash consideration of R$8 (equivalent to RM11.94) only (the "Consideration"):-

KNM's Brazilian Group of Companies		Consideration (R$)
i.	KNM Sistemas De Processamento Do Brasil Ltda	2.00
ii.	KNM Equipamentos SA	2.00
iii.	KNM Industrial Ltda	2.00
iv.	KNM Servicos Ltda	2.00

The transaction was completed on 25 September 2013.

36. Subsequent events

36.1 On 27 January 2014, it was announced that the Company intends to undertake the following corporate exercises:

i. Proposed par value reduction via the cancellation of RM0.50 of the par value of every existing ordinary share of RM1.00 each in the issued and paid-up capital of the Company pursuant to Section 64 of the Companies Act, 1965 ("Proposed Par Value Reduction");
ii. Proposed amendment to relevant clauses of the Memorandum and/or Articles of Association of the Company for the Proposed Par Value Reduction ("Proposed Amendment"); and
iii. Proposed establishment of an employees' share option scheme for the eligible employees and directors of KNM and its subsidiaries ("Proposed ESOS").

A conditional approval from Bursa Malaysia Securities Berhad was obtained on 28 February 2014 and the Proposals were subsequently approved by the Shareholders of the Company at the Extraordinary General Meeting of the Company held on 18 April 2014 to approve the above proposals.

The High Court had on 29 April 2014, approved the above proposed par value reduction.

36.2 On 24 February 2014, KNM Group Berhad's wholly-owned subsidiary, KNM International Sdn Bhd ("KNMI") had entered into a Joint Venture & Shareholders Agreement ("JVSHA") with China Nuclear Industry 23 Construction Co Ltd ("CNI23") to collaborate in pursuing and securing construction works for mechanical, electrical and erection related to oil and gas, power, petrochemical and renewable energy projects ("Project") in Malaysia and South East Asia ("Territory") (hereinafter collectively referred to as "Business"). KNMI and CNI23 intends to invest in KNM-CIW Sdn Bhd (to be renamed "CNI Engineering & Construction Malaysia Sdn Bhd") assuming that Companies Commission of Malaysia's approval is obtained) ("JVCO") in cash on 70% (KNMI) : 30% (CNI23) basis and upon completion of the JVSHA, the paid up capital of JVCO shall be RM1,000,000.00 ("the Investment").

The investment is still pending fulfillment of the conditions precedent as stated in the JVSHA.

37. Effects of adoption of MFRS 10

MFRS 10, Consolidated Financial Statements introduces a new control model to identify parent-subsidiary relationship. This control model is based on the elements of power, returns and the link between power and returns. The Group has assessed the new model for investment, and involvement with all other entities. This resulted in two former associated companies, Kimma Thai Co. Ltd and KNM Projects (Thailand) Co. Ltd becoming subsidiaries under the dominant shareholders concept of defacto control in MFRS 10. The effect of this change in policy on consolidation has been applied retrospectively as follows:

Consolidated Statement of Financial Position as at 31 December 2012

	Previously reported 31.12.2012 RM'000	Adoption of MFRS 10 RM'000	Restated 31.12.2012 RM'000
Assets			
Property, plant and equipment	866,346	187	866,533
Investment in associates	41	(17)	24
Trade and other receivables	982,470	(4,100)	978,370
Derivative financial assets	8,682	986	9,668
Cash and cash equivalents	191,801	109	191,910
Equity			
Reserves	424,354	(12,419)	411,935
Non-controlling interests	4,237	8	4,245
Current liabilities			
Trade and other payables	576,811	7,132	583,943
Derivative financial liabilities	6,371	2,444	8,815

Consolidated Statement of Financial Position as at 1 January 2012

	Previously reported 1.1.2012 RM'000	Adoption of MFRS 10 RM'000	Restated 1.1.2012 RM'000
Assets			
Non-current assets			
Property, plant and equipment	761,814	169	761,983
Investment in associates	45	(10)	35
Current assets			
Trade and other receivables	953,858	1,479	955,337
Derivative financial assets	20,584	(316)	20,268
Cash and cash equivalents	416,429	2,157	418,586
Equity			
Reserves	342,477	(713)	341,764
Non-controlling interests	7,021	8	7,029
Current liabilities			
Trade and other payables	496,810	4,184	500,994

37. Effects of adoption of MFRS 10 (continued)

Consolidated Statement of profit or loss and other comprehensive income as at 31 December 2012

	Previously reported 31.12.2012 RM'000	Adoption of MFRS 10 RM'000	Discontinued operation adjustments RM'000	Restated 31.12.2012 RM'000
Contract revenue	2,377,340	17,129	(8,311)	2,386,158
Sales of goods and services	190	-	(97)	93
Contract costs recognised as an expenses	(1,969,972)	(26,433)	11,400	(1,985,005)
Cost of goods sold and services	(176)	-	97	(79)
Administration expenses	(224,342)	(1,101)	8,998	(216,445)
Other income	39,860	519	(4,246)	36,133
Other operating expenses	(115,559)	196	31,627	(83,736)
Finance costs	(60,362)	(52)	6,969	(53,445)
Impairment of goodwill	(29,557)	-	29,557	-
Tax expense	59,052	-	4,614	63,666
Loss from discontinued operations	-	-	(80,608)	(80,608)
Cash flow hedge	5,228	(1,890)	-	3,338
Foreign currency translation differences for foreign operations	(5,513)	(74)	(9,255)	(14,842)
Foreign currency translation differences for discontinued foreign operations	-	-	9,255	9,255

38. Supplementary financial information on the breakdown of realised and unrealised profits or losses

The breakdown of the retained profits of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements are as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total retained earnings of the Company and its subsidiaries				
- Realised	621,697	490,436	52,458	50,202
- Unrealised	(148,004)	(112,811)	44	(91)
	473,693	377,625	52,502	50,111
Total share of retained earnings of associate				
- Realised	(10)	(16)	-	-
- Unrealised	-	-	-	-
Total share of retained earnings of Joint venture				
- Realised	(3,446)	(2,155)	-	-
- Unrealised	(1,358)	(133)	-	-
	468,879	375,321	52,502	50,111
Add: Consolidation adjustments	445,093	510,579	-	-
Total retained earnings	913,972	885,900	52,502	50,111

The determination of realised and unrealised profits is based on Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

KNM Group Berhad

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

and its subsidiaries

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 7 to 129 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 38 on page 130 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

....

Dato' Ab. Halim bin Mohyiddin

....

Lee Swee Eng

Kuala Lumpur,

Date: 30 April 2014

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

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Tan Koon Ping**, the officer primarily responsible for the financial management of KNM Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 7 to 130 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 30 April 2014.

....
Tan Koon Ping

Before me:

PESURUHJAYA SUMPAH
W493
LEE CHIN HIN
MALAYSIA

149, Jalan Aminuddin Baki
Taman Tun Dr Ismail
60000 Kuala Lumpur

KPMG (Firm No. AF 0758)
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Independent auditors' report to the members of KNM Group Berhad

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

Report on the Financial Statements

We have audited the financial statements of KNM Group Berhad, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 7 to 129.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 in Malaysia.

Emphasis of matters

Without qualifying our opinion, we draw attention to Note 9 and 21 to the financial statements. The projected future taxable profit supporting the recognition of the deferred tax assets is subject to significant risk and uncertainties. In the projection of future taxable profits, the assumptions used included future events that may not necessarily occur. Actual results could be significantly different from the Directors' estimate of future profitability since anticipated events may not occur as expected and the variation could be material. Hence uncertainties exist and any significant variation in these assumptions may result in a change in the extent of the deferred tax assets / tax benefits recognised in the statements of financial position and statements of profit or loss.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 32 to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the material subsidiaries did not contain material qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 38 on page 130 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards and International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

KPMG	**Chan Kam Chiew**
Firm Number: AF 0758	Approval Number: 2055/06/14(J)
Chartered Accountants	Chartered Accountant

Petaling Jaya,

Date: 30 April 2014

THE LATEST UNAUDITED QUARTERLY RESULTS OF OUR GROUP FOR FYE 31 DECEMBER 2014 INCLUDING THE EXPLANATORY NOTES THEREON

KNM GROUP BERHAD

(Company No:521348-H)
(Incorporated In Malaysia)

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Period to date	
	Unaudited 3 months ended 31.12.2014 RM'000	Audited 3 months ended 31.12.2013 RM'000	Unaudited 31.12.2014 RM'000	Audited 31.12.2013 RM'000
Contract revenue	451,236	575,131	1,865,131	1,986,427
Operating profit	68,508	41,891	179,403	101,461
Financing costs	(12,251)	(19,563)	(53,092)	(54,158)
Interest income	958	630	2,996	2,700
Impairment of goodwill	(6,672)	-	(6,672)	-
Share of (loss)/profit of equity accounted investees, net of tax	(621)	(3,042)	804	(3,504)
Profit before tax	49,922	19,916	123,439	46,499
Tax expense	(46,481)	(13,899)	(80,184)	(26,591)
Net profit for the period	3,441	6,017	43,255	19,908
Other comprehensive income/(loss), net of tax				
Foreign currency translation differences	76,663	80,815	(18,781)	165,767
Net investment in subsidiaries	(36,720)	(55,860)	(93,605)	46,450
Revaluation of property, plant and equipment	61,987	-	61,987	-
Cash Flow hedge	(2,364)	2,345	(5,399)	2,157
Share of other comprehensive income of equity accounted investee	455	(31)	142	487
Other comprehensive income/(loss) for the period, net of tax	100,021	27,269	(55,656)	214,861
Total comprehensive income/(loss) for the period	103,462	33,286	(12,401)	234,769
Attributable to:				
Equity holders of the parent	3,965	7,512	45,690	23,450
Minority interest	(524)	(1,495)	(2,435)	(3,542)
	3,441	6,017	43,255	19,908
Total comprehensive income/(loss) attributable to:				
Equity holders of the parent	104,455	34,696	(7,972)	239,470
Minority interest	(993)	(1,410)	(4,429)	(4,701)
Total comprehensive income/(loss) for the period	103,462	33,286	(12,401)	234,769
Earnings per share:				
- Basic / Diluted (sen)	0.26	0.51	2.94	1.60

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

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

2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.12.2014 RM'000	Audited As at 31.12.2013 RM'000
Assets			
Non-current assets			
Intangible Assets		519,036	588,901
Goodwill		772,885	830,048
Property, plant and equipment		859,525	834,794
Other investment, including derivative		14,705	12,758
Investments in associates		24	30
Investments in jointly-controlled entities		5,743	4,561
Deferred Tax Assets		340,360	370,248
		2,512,278	2,641,340
Current assets			
Inventories		75,873	77,905
Contracts work in progress		496,450	449,191
Trade and other receivables		645,928	607,148
Cash and cash equivalents		213,341	268,301
		1,431,592	1,402,545
TOTAL ASSETS		3,943,870	4,043,885
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		774,537	1,445,033
Treasury Shares		(53,402)	(53,390)
Reserves		1,445,601	668,112
		2,166,736	2,059,755
Non-controlling interests		(4,585)	(156)
Total Equity		2,162,151	2,059,599
Non-current liabilities			
Long term payable		52,142	52,819
Long service leave liability		2,886	2,324
Loans and borrowings	B9	233,099	454,263
Deferred taxation		219,697	233,050
		507,824	742,456
Current liabilities			
Payables and accruals		551,852	531,710
Deferred income		155,674	216,653
Loans and borrowings	B9	565,491	492,758
Current tax liabilities		878	709
		1,273,895	1,241,830
Total liabilities		1,781,719	1,984,286
TOTAL EQUITY AND LIABILITIES		3,943,870	4,043,885
Net assets per share attributable to equity holders of the parent (RM)		1.32	1.38

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to equity holders of the parent										
			Non-Distributable					Distributable Reserve			
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000	Hedging Reserve RM'000	AFS Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserve RM'000	Retained Profit RM'000	Total RM'000	Minority Interest RM'000	Total equity RM'000
As at 1 January 2013	1,445,033	(53,385)	16,707	(1,834)	-	44,981	(517,112)	885,900	1,820,290	4,245	1,824,535
Other comprehensive income for the year	-	-	-	2,157	-	-	213,863	-	216,020	(1,159)	214,861
Profit for the year	-	-	-	-	-	-	-	23,450	23,450	(3,542)	19,908
Total comprehensive income for the year	-	-	-	2,157	-	-	213,863	23,450	239,470	(4,701)	234,769
Transaction with owners in their capacity as owner											
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	300	300
Share buy back	-	(5)	-	-	-	-	-	-	(5)	-	(5)
Realisation of revaluation reserve on disposal of subsidiaries	-	-	-	-	-	-	(4,622)	4,622	-	-	-
As at 31 December 2013 (Audited)	1,445,033	(53,390)	16,707	323	-	44,981	(307,871)	913,972	2,059,755	(156)	2,059,599
As at 1 January 2014	1,445,033	(53,390)	16,707	323	-	44,981	(307,871)	913,972	2,059,755	(156)	2,059,599
Other comprehensive income for the year	-	-	-	(5,399)	-	-	(46,305)	(1,958)	(53,662)	(1,994)	(55,656)
Profit for the year	-	-	-	-	-	-	-	45,690	45,690	(2,435)	43,255
Total comprehensive income for the year	-	-	-	(5,399)	-	-	(46,305)	43,732	(7,972)	(4,429)	(12,401)
Transaction with owners in their capacity as owner											
Share Buy Back	-	(12)	-	-	-	-	-	-	(12)	-	(12)
Par value reduction	(745,007)	-	745,007	-	-	-	-	-	-	-	-
Issuance of ordinary share - Private Placement	73,337	-	29,335	-	-	-	-	-	102,672	-	102,672
- ESOS	1,174	-	376	-	-	-	-	-	1,550	-	1,550
Share based payments	-	-	-	-	-	-	12,902	-	12,902	-	12,902
Transfer to share premium for share option exercised	-	-	869	-	-	-	(869)	-	-	-	-
Share issue expenses	-	-	(2,159)	-	-	-	-	-	(2,159)	-	(2,159)
As at 31 December 2014 (Unaudited)	774,537	(53,402)	790,135	(5,076)	-	44,981	(342,143)	957,704	2,166,736	(4,585)	2,162,151

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

KNM GROUP BERHAD

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2014

(Unaudited)

	31.12.2014 RM '000	31.12.2013 RM '000
Cash flows from operating activities		
Profit before tax	123,439	46,499
Adjustments for:		
Amortisation of intangible assets	35,597	34,562
Share based payment	12,902	-
Depreciation	9,347	11,656
Interest expense	48,759	48,633
Interest income	(2,996)	(2,700)
Gain on foreign exchange-unrealised	(60,116)	(81,652)
(Gain)/Loss on disposal of property, plant and equipment	(4,133)	2,091
Share of (profit)/loss of in associates and jointly-controlled entities	(804)	3,504
Change in fair value of forward contract	9,724	1,185
Property, plant and equipment written off	425	-
Provision for foreseeable losses	477	987
Reversal of impairment of other investment	(266)	-
Impairment of goodwill	6,672	-
Impairment of other investments	-	3,339
Impairment of property, plant and equipment	1,139	1,958
Gain on disposal of subsidiaries	-	(11,810)
Gain on disposal of other investment	(2,437)	-
Reversal of impairment on property, plant and equipment	(3,318)	-
Operating profit before working capital changes	174,411	58,252
Decrease / (Increase) in working capital:		
Inventories	2,032	(1,508)
Receivables, deposits and prepayments	(28,323)	100,274
Payables and accruals and long service leave liability	(55,476)	(845)
Cash used in operations		
Income taxes paid	(52,160)	(24,299)
Interest paid	(840)	(2,216)
Interest received	2,996	2,700
Net cash generated from operating activities	42,640	132,358
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,718)	(8,005)
Proceed from disposal of other investment	5,761	-
Proceed from disposal of subsidiaries	-	(591)
Acquisition of other investments	-	(5,287)
Acquisition of other intangible assets	(902)	(1,102)
Proceeds from issuance of share to minority interest	-	300
Proceeds from disposal of property, plant and equipment	10,559	6,558
Net cash used in investing activities	(3,300)	(8,127)
Cash flows from financing activities		
Proceeds from issuance of shares	104,222	-
Share buy back	(13)	(5)
Net repayment of bill payable	(77,778)	(24,026)
Repayment of hire purchase liabilities	(9,171)	(6,167)
Net (repayment)/drawdown of term loan and revolving credit	(59,133)	123,531
Net repayment of ICP/IMTN	-	(95,000)
Interest expenses	(47,919)	(46,417)
Share issue expenses	(2,159)	-
Net cash used in financing activities	(91,951)	(48,084)
Net (decrease)/increase in cash and cash equivalents	(52,611)	76,147
Cash and cash equivalents at beginning of period	261,587	185,440
Cash and cash equivalents at end of period	208,976	261,587
Cash & bank balances	189,901	223,973
Deposits with licensed banks	23,440	44,328
	213,341	268,301
Bank overdraft	(4,365)	(6,714)
	208,976	261,587

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

Notes to the Quarterly Interim Financial Report – 31 December 2014

PART A: EXPLANATORY NOTES AS PER MFRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2013. These explanatory notes attached to the interim financial statements provide explanation of events and transactions that are significant for the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2013.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2013 were prepared in accordance with MFRS. Except for certain differences, the requirements under IFRS and MFRS are similar. The significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2013.

As of 1st January 2014, the Group has adopted the following new and revised MFRS, amendments and IC interpretations (collectively referred to as "pronouncements") which are effective for annual period beginning on or after 1st January 2014.

Amendments to MFRS 10	*Consolidated Financial Statements: Investment Entities*
Amendments to MFRS 12	*Disclosure of Interests in Other Entities: Investment Entities*
Amendments to MFRS 127	*Separate Financial Statements (2011): Investment Entities*
Amendments to MFRS 132	*Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 136	*Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to MFRS 139	*Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
IC Interpretation 21	Levies

The adoptions of the above pronouncements do not have any impact on the financial statements of the Group.

A3. Qualification of annual financial statements

There was no audit qualification in the annual financial statements of the Group for the year ended 31 December 2013.

A4. Seasonal and cyclical factors

The Group's business operation results were not materially affected by any major seasonal or cyclical factors.

A5. Unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows

There were no unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows for the current quarter and financial year to date.

A6. Material changes in estimates

There were no material changes in estimates of amount reported in the current quarter.

A7. Issuances and repayment of debt and equity securities

A. There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period to date.

B. During the financial year ended 31 December 2014, the Company has repurchased a total 23,291,275 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM2.30 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares and treated in accordance with the requirement of Section 67A of the Companies Act 1965.

A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Geographical segments:

	Revenue 12 months ended 31.12.2014	Gross Profit 12 months ended 31.12.2014	EBITDA 12 months ended 31.12.2014
	RM'000	RM'000	RM'000
Asia & Oceania	439,544	142,328	136,629
Europe	1,274,849	277,415	167,143
Americas	106,519	24,406	21,585
Continuing operations	1,820,912	444,149	325,357
Discontinued operations	44,219	(19,373)	(44,407)
	1,865,131	424,776	280,950

	Revenue 12 months ended 31.12.2013	Gross Profit 12 months ended 31.12.2013	EBITDA 12 months ended 31.12.2013
	RM'000	RM'000	RM'000
Asia & Oceania	540,376	130,492	108,457
Europe	1,268,144	231,809	131,866
Americas	76,944	14,675	7,988
Continuing operations	1,885,464	376,976	248,311
Discontinued operations	100,963	(21,922)	(44,969)
	1,986,427	355,054	203,342

A10. Valuation of property, plant and equipment

Property, plant and equipment of the Group are stated at cost/valuation less accumulated depreciation and accumulated impairment losses where applicable.

The carrying value of Freehold land, leasehold land and buildings as at 31 December 2014 was reported based on revaluated amount derived from revaluation exercises carried out in quarter 4, 2014 by independent qualified valuers using the comparison method to reflect their fair value.

A11. Material events subsequent to the end of the interim period

There was no material event subsequent to the end of the reporting year and up to the date of issuance of this report, except as follows:-

1. On 5 February 2015, KNM Process Systems Sdn Bhd ("KNMPS" or the "Vendor") has entered into a Sale and Purchase Agreement ("SPA") with Northfield Global Limited (the "Purchaser') for the disposal of *inter alia* the Vendor's entire business and equity interest in KNM Pty Ltd group ("KPL Group") for a total cash consideration of AUD2.00 only (equivalent to RM5.54).

A12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial year to date except as follow:-

1. The de-registration/striking-off the Affected Subsidiaries as per item B8(1) are currently ongoing.

2. On 24 February 2014, KNM Group Berhad's wholly-owned subsidiary, KNM International Sdn Bhd ("KNMI") had entered into a Joint Venture & Shareholders Agreement ("JVSHA") with China Nuclear Industry 23 Construction Co Ltd ("CNI23") to collaborate in pursuing and securing construction works for mechanical, electrical and erection related to oil and gas, power, petrochemical and renewable energy projects in Malaysia and South East Asia.

   KNMI and CNI23 have duly invested in CNI Engineering & Construction Malaysia Sdn Bhd (formerly known as KNM-CIW Sdn Bhd) ("JVCO") in cash on 70% (KNMI) : 30% (CNI23) basis based on the issued and paid up capital of RM1,000,000.00 ("the Investment").

3. On 30 May 2014, KNM's wholly-owned subsidiary, KNM Process Systems Sdn Bhd, had executed an Agreement of Mutual Termination to *inter alia,* mutually terminate its Shareholders' Agreement dated 8 October 2008 with Prosernat SA in respect of the management and operations of their joint venture entity, KPN Gas Technology Sdn Bhd (now known as Prosernat (M) Sdn Bhd).

4. On 10 November 2014, the Company had incorporated a wholly-owned subsidiary, Splendid Investments Limited ("Splendid") in Labuan, and had subscribed for 1 ordinary share for cash SGD1.00 (about RM2.58) only.

5. On 3 December 2014, KNM International Sdn Bhd ("KNMI") had executed an Agreement of Mutual Termination with Aveng (Africa) Proprietary Limited ("Aveng Africa ") to *inter alia* terminate the Shareholders' Agreement dated 1 December 2010 (the "Shareholders' Agreement") in respect of the management and operations of the joint venture entity known as KNM Grinaker–LTA Proprietary Limited ("KGL"). In tandem with the Mutual Termination, the parties have on the same date, also entered into a Sale and Purchase Agreement (the "SPA") for the disposal of KNMI's entire equity interest in KGL to Aveng Africa, comprising 4,990 ordinary shares of ZAR1 each for a total cash consideration of ZAR4,990 (approximately RM1,540).

A13. Changes in contingent liabilities

There were no material changes in contingent liabilities for the Group as at the date of this announcement.

A14. Capital commitments

	Approved and contracted for RM'000	Approved but not contracted for RM'000
Property, plant and equipment	6,581	13,473

A15. Related party transactions

Significant related party transactions for the financial year to date are as follows:

	RM'000
Inter Merger Sdn Bhd (a)	
- Office rental, related charges and administrative expense	1,770
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	2,625
Tofield Realty Development Corporation (c)	
- General and civil contractor and provider of staff accommodation	399

(a) *a company in which Mr. Lee Swee Eng and Madam Gan Siew Liat are director*
(b) *a company in which Inter Merger Sdn Bhd is the holding company*
(c) *a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are director and shareholder*

PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of performance

The Group achieved revenue of RM1.87 billion, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of RM280.95 million and profit after tax and minority interest of RM45.69 million for the year ended 31 December 2014. The Group recorded a higher profit after tax and minority interest compared to the previous year was mainly due to improved margin contribution.

Asia & Oceanic Segment
This segment registered lower revenue recognition, however with improved margin contribution.

Europe Segment
Europe's contribution remains positive with its stable order book and higher margin contribution.

Americas Segment
Americas' contribution to the Group improved due to improved order book.

B2. Variation of results against preceding quarter

The Group's revenue of RM451.24 million for the quarter under review was higher by RM20.56 million against the immediate preceding quarter's revenue of RM430.68 million. The Group registered higher profit before taxation of RM49.92 million as compared to immediate preceding quarter's profit before taxation of RM30.50 million on improved margin contribution.

B3. Prospects

- The Asia & Oceanic segment is improving its order book with the orders secured from PIC project.
- The European and Americas segment profitability is expected to continue with its stable order book.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 31.12.2014 RM'000	3 months Ended 31.12.2013 RM'000	12 months Ended 31.12.2014 RM'000	12 months Ended 31.12.2013 RM'000
Income Tax expense :-				
Current period	26,543	9,551	49,704	26,819
Prior period	4,810	(115)	3,899	(11,546)
Deferred tax	15,128	4,463	26,581	11,318
	46,481	13,899	80,184	26,591

The Group's effective tax rate for the financial year is higher than statutory tax rate mainly due to deferred tax effects.

B6. Unquoted investments and properties

There were no significant investments or disposals in unquoted investments and properties for the current quarter and financial year to date.

B7. Quoted and marketable investments

There were no significant investments or disposals in quoted and marketable securities during the current quarter and financial year to date.

B8. Status of corporate proposals announced but not completed

1. On 28 November 2013, the 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"):-

Subsidiaries	Date 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 1 – Both Ir Lee Swee Eng and Mr Chew Fook Sin has a collective interest of 63.15% in Tegas Klasik Sdn Bhd ("TKSB"). TKSB has an indirect interest of 7.14% in KNM-DP Harta Bina Sdn. Bhd as well as a 1.70% direct interest in KNM Group Bhd.*

2. Pursuant to the Company's announcements on 17 October 2014 and 27 November 2014, KNM had proposed to undertake the following:-
   (a) 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");
   (b) 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 of 5,000,000,000 KNM Shares ("Proposed Increase in Authorised Share Capital");
   (c) Proposed Amendments to the Memorandum of Association of KNM ("Proposed Amendment"); and
   (d) Proposed Granting of KNM's Employees Share Options to Dato' Adnan Bin Wan Mamat pursuant to the Company's existing Employees Share Option Scheme ("Proposed ESOS Grant").

   The Proposed Rights Issue With Warrants, Proposed Increase in Authorised Share Capital, Proposed Amendment and Proposed ESOS Grant are collectively referred to as the "Proposals".

   The listing application in relation to the Proposals have been submitted to Bursa Malaysia Securities Berhad ("Bursa Securities") on 12 November 2014. Bursa Securities' approval has been obtained on 21 November 2014 and the approval from the Company's shareholders in respect of the said Proposals have been duly obtained at the Extraordinary General Meeting of the Company held on 19 December 2014.

   On 17 February 2015, the Board had announced that the price of the Rights Shares has been fixed at RM0.50 per rights share, while the exercise price for the conversion of one Warrant B into one KNM share was fixed at RM1.00. The matter is now pending issuance and submission of the Abridged Prospectus to be approved by the Securities Commission of Malaysia ("SC").

3. On 6 November 2014, KNM Group Berhad has signed an Agreement of Mutual Termination to *inter alia,* mutually terminate the Shareholders' cum Joint Venture Agreement dated 13 December 2012 (the "Shareholders' Agreement") with HMS Oil & Gas Sdn Bhd ("HMS") in respect of the management and operations of the joint venture entity known as KNM HMS Energy Sdn Bhd ("JVCO").

   The parties have agreed to voluntarily wind-up the JVCO and the voluntary winding up process is currently ongoing.

B9. Group borrowings and debt securities

The Group's borrowings as at the end of the reporting year were as follows:

	RM'000
Short term:	
Borrowings (secured)	320,836
Borrowings (unsecured)	47,089
Bank Overdraft	4,365
Bill Payable	118,542
Hire Purchase	11,159
Revolving credit	63,500
	565,491
Long term :	
Borrowings (secured)	216,134
Borrowings (unsecured)	409
Hire Purchase	16,556
	233,099
	798,590

Included in borrowings are certain borrowings denominated in foreign currency of RMB 20.00 million, EURO 76.51 million, CAD 6.10 million and USD 15.55 million.

The exchange rates used are 1 RMB = RM 0.5634, 1 EURO = RM 4.2303, 1 CAD = RM 3.0089 and 1 USD = RM3.4970.

B10. Financial Instruments

With the adoption of MFRS 139, financial instruments are recognized on their respective contract dates.

There are no off-balance sheet financial instruments.

The outstanding forward foreign currency exchange contracts as at 31 December 2014 are as follows:-

Type of Derivative	Contract/Notional value RM'000	(Gain) /Loss on Fair value changes RM'000
Foreign Exchange Contracts		
-Less than 1 year	248,760	10,058
-1 year to 3 years	31,296	1,949
- More than 3 years	-	-
	280,056	12,007

Exposure to foreign currency fluctuation of underlying commitments is monitored on on-going and timely basis. The Company's objective to incept derivative instrument contract is mainly to hedge against foreign exchange exposure on transactions in currencies other than its own.

Forward foreign exchange contracts are entered into with licensed banks to hedge the Group's exposure to foreign exchange risk in respect of its export sales, import purchases and other obligations by establishing the basis rate at which a foreign currency asset or liability will be settled.

These contracts are executed with credit-worthy/ reputable financial institutions and as such, credit risk and liquidity risk in respect of non-performance by counterparties to these contracts is minimal.

The fair values of the forward foreign currency exchange contracts are subject to market risk and the fair values were derived from marking to available market quoted price as of the reporting period. The fair value of the forward contracts may change in accordance to the fluctuation of the exchange rate of the underlying currency resulting in gain or loss in fair value.

The cash requirement for these derivatives will be fulfilled by future contract and other proceeds on the respective maturity date.

B11. PROFIT FOR THE YEAR

	3 Months ended 31.12.2014 RM'000	3 Months ended 31.12.2013 RM'000	12 Months ended 31.12.2014 RM'000	12 Months ended 31.12.2013 RM'000
(a)				
Profit for the year is arrived at after charging and crediting:				
Allowance / (Reversal) for impairment loss on doubtful debt	5,538	(1,679)	5,538	(3,402)
Bad debts written off	1,484	196	2,882	472
Net Loss / (Gain) on foreign exchange	(31,688)	(22,723)	(50,527)	(20,553)
Net Loss / (Gain) on derivative	2,241	122	9,724	1,185
Amortisation of intangible asset	8,682	9,166	35,597	34,562
Provision / (Reversal) for warranty	2,719	(771)	3,472	62
Provision / (Reversal) of late delivery charges	4,092	9,657	2,286	9,657
Provision for foreseeable loss	477	987	477	987
Share based payment	7,367	-	12,902	-
Impairment of goodwill	6,672	-	6,672	-
Impairment of property, plant and equipment	1,139	1,958	1,139	1,958
And crediting:				
Interest income	958	630	2,996	2,700
Gain on disposal of other investment	-	-	2,437	-
Gain on disposal of subsidiaries	-	-	-	11,810
Reversal of impairment on property, plant and equipment	3,318	-	3,318	-
(b)				
Finance costs	12,251	19,563	53,092	54,158
(c)				
Depreciation charge for the period:				
Income statement	3,252	4,401	9,347	11,656
Construction work in progress	13,184	12,615	56,603	55,663
	16,436	17,016	65,950	67,319

B12. Realised and Unrealised Profit/Losses Disclosure

	As at 31 December 2014 RM'000	As at 31 December 2013 RM'000
Total retained profit of KNM Group and its subsidiaries		
- Realised	600,953	621,697
- Unrealised	(180,582)	(148,004)
Total share of accumulated losses from associated companies:		
- Realised	(4)	(10)
- Unrealised	-	-
Total share of retained profit / (accumulated losses) from joint venture entities:		
- Realised	(2,995)	(3,446)
- Unrealised	(16)	(1,358)
Add: Consolidation adjustments	540,348	445,093
Total Group retained profits as per consolidated accounts	957,704	913,972

B13. Material litigation

As at the date of this announcement, there were no material litigation since the last annual balance sheet date except for the following:-

1. **Shah Alam High Court (Commercial Division) Suit No.: 28-461-11/2012**
   Court of Appeal Civil Appeal No.: B-02-713-03/2013
   KNM Process Systems Sdn Bhd v. Mission Biofuels Sdn Bhd

   KNM Group Berhad's wholly–owned subsidiary, KNM Process System Sdn Bhd ("KNMPS") on, 1 November 2012 filed a Winding Up Petition under section 218 (1) (e) & (i) and section 218 (2) (c) of the Companies Act 1965 ("Act") against Mission Biofuels Sdn Bhd ("Mission Biofuels").

   The petition was heard and dismissed by the High Court with cost on 12 March 2013. An appeal was filed at the Court of Appeal, which was dismissed with cost on 17 November 2014.

   KNM has filed for leave to appeal at the Federal Court against the decision of the Court of Appeal.

2. **Shah Alam High Court (Commercial Division) Suit No. : 28-179-04/2013**
   Court of Appeal No.: B-02-1164-05/2013
   Mission Biofuels v. KNMPS

   On 19 April 2013, KNMPS was served with a Winding Up Petition under Section 218(1) (e) & (i) and Section 218 (2) (c) of the Act pursuant to an EPCC Contract dated 25 July 2007 for the development of a Biodiesel Plant located in Kuantan Port ("EPCC Contract").

   The petition was struck out by the High Court with cost on 9 May 2013.

   On 14 May 2013 Mission filed an appeal against the said decision. On 5 January 2015, the Court of Appeal dismissed Mission's appeal with cost.

   Mission has filed for leave to appeal to the Federal Court against the decision of the Court of Appeal.

3. In the Matter of Arbitration Between KNMPS (Claimant) and Mission Biofuels (Respondent)

KNMPS had on 30 April 2014, filed its Points of Claim in the Arbitration proceedings as aforesaid against Mission Biofuels Sdn Bhd, in connection with the EPCC Contract. This Arbitration is part of KNM Group's on-going litigation action to protect and preserve KNMPS' right and monetary claims for various works and services provided in respect of the EPCC Contract. KNMPS is claiming in arbitration for approximately RM120 million.

The hearing of arbitration proceeding is scheduled on 30 March 2015 and expected to be completed on 16 April 2015.

4. Shah Alam High Court (Commercial Division(Suit No.: 24NCVC-688-04/2013)
Court of Appeal Civil Appeal No.: W-02(NCVC)(A)-808-05/2013
KNMPS v. Mission Biofuels

On 5 April 2013, KNMPS filed an application for a declaration of a valid lien in favour of KNMPS in respect of the Biodiesel Plant. On 31 March 2014, the High Court dismissed KNMPS application and an appeal was filed in the Court of Appeal, Putrajaya. On 29 October 2014, the Court of Appeal unanimously reaffirmed KNMPS right to an equitable lien over the Biodiesel Plant owned by Mission Biofuels, in connection with the EPCC Contract.

Mission's application for leave to appeal to the Federal Court is pending.

B14. Dividend payable

There was no dividend declared or recommended during quarter under review.

B15. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	3,965	7,512	45,690	23,450
Number of shares at the beginning of the year ('000)	1,490,013	1,490,014	1,490,013	1,490,014
Issuance of share – Private Placement	87,201	-	87,201	-
Effect of Share Buy Back	(23,278)	(23,265)	(23,278)	(23,265)
Share option exercised	710	-	710	-
Weighted average number of shares ('000)	1,554,646	1,466,749	1,554,646	1,466,749
Basic earnings per share (sen)	0.26	0.51	2.94	1.60

B16. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 25 February 2015.

KNM GROUP BERHAD *(521348-H)*
Corporate Office
15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia.
Tel: (603)-8946 3000 • Fax: (603)-8943 4781 • Email: knm@knm-group.com • Website: www.knm-group.com

Registered Office:

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

Date: 20 MAR 2015

To: The Entitled Shareholders of KNM Group Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of KNM Group Berhad ("**KNM**" or "**the Company**") ("**Board**"), I wish to report, after due enquiry, that during the period between 31 December 2013 (being the date to which the last audited financial statements of KNM and its subsidiaries ("**KNM Group**") have been made up) and the date of this letter (being a date not earlier than 14 days before the date of issuance of this Abridged Prospectus):

(a) the business of the KNM Group has, in the opinion of the Board, been satisfactorily maintained;

(b) in the opinion of the Board, no circumstances have arisen since the last audited financial statements of the KNM Group which have adversely affected the trading or the value of the assets of the KNM Group;

(c) the current assets of the KNM Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in this Abridged Prospectus, there are no material contingent liabilities which have arisen by reason of any guarantees or indemnities given by the KNM Group;

(e) since the last audited financial statements of the KNM Group, there is no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowing. This applies for all the corporations under KNM Group; and

(f) there have not been, since the last audited financial statements of the KNM Group, any material change in the published reserves or any unusual factors affecting the profits of the KNM Group.

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

IR LEE SWEE ENG
Chief Executive Officer/Executive Director

1. SHARE CAPITAL

(i) Save for the Rights Shares, the new KNM Shares to be issued or pursuant to the exercise of the Warrants A, ESOS options, Warrants B, Additional Warrants A and Additional ESOS Options, and the new KNM Shares that may be issued pursuant to the Proposed Acquisition as disclosed in Section 7.3 of this AP, no securities of our Company will be issued and allotted on the basis of this AP later than 12 months after the date of this AP.

(ii) As at the LPD, save for the:-

(a) Entitled Shareholders who will provisionally be allotted with the Rights Shares with Warrants B is entitled to subscribe for the Rights Shares at an issue price of RM0.50 per Rights Share together with Warrants B with an exercise price of RM1.00 for each Warrant B under the Rights Issue with Warrants;

(b) 488,920,659 outstanding Warrants A in issue in KNM pursuant to the Deed Poll A as at the LPD. 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;

(c) 24,200,900 outstanding ESOS options which has been granted but unexercised, as well as maximum number of ESOS options allowed to be granted. 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;

(d) Up to 29,503,369 Additional Warrants A arising from adjustment to the number of the existing Warrants A pursuant to the Rights Issue with Warrants; and

(e) Up to 15,694,725 Additional ESOS Options arising from adjustment to the number of the existing ESOS options pursuant to the Rights Issue with Warrants;

no persons have been or are entitled to be given an option to subscribe for any securities, shares or debentures in our Company or our subsidiaries.

(iii) As at the date of this AP, there are no founder, management or deferred shares in our Company. There is only one class of shares in our Company, namely ordinary shares of RM0.50 each, all of which rank *pari passu* with one another.

(iv) Save for the Rights Issue with Warrants, Private Placement, exercise of the Warrants A and ESOS Options, and the new KNM Shares that may be issued pursuant to the Proposed Acquisition, no securities of our Company have been issued, or proposed/agreed to be issued either as fully or partly paid-up in cash or otherwise than in cash within the 2 years immediately preceding the date of this AP.

2. ARTICLES OF ASSOCIATION

The provision in our Articles of Association in relation to the remuneration of our Directors is as follows:-

Article 110 – Remuneration of Directors

Subject to these Articles, the fee of our Directors shall time to time be determined by the Company in general meeting but:-

(1) Directors' fees payable to Directors not holding any executive office in the Company shall be a fixed sum and shall not be payable by a commission on or percentage of profits or turnover;

(2) Salaries payable to Directors holding executive office in the Company may not include a commission on or a percentage of turnover;

(3) All fee payable to Directors shall be deemed to accrue from day to day;

(4) Fees payable to Directors shall not be increased except pursuant to a resolution passed by the Company in general meeting, where notice of the proposed increase has been given in the notice convening the meeting; and

(5) Any fee paid to an alternate Director shall be agreed between him and his appointer and shall be deducted from his appointer's remuneration.

Article 112 – Special Remuneration of Directors

The Directors may grant special remuneration to any Director who (on request by the Directors) is willing to:

(1) render any special or extra services to the Company; or

(2) To go or reside outside his country of domicile or residence in connection with the conduct of any of the Company's affairs.

Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be paid in a lump sum or by way of salary, or by a percentage of profits, or by all or any of such methods but shall not include (where such special remuneration is paid by way of salary) a commission on or a percentage of turnover.

Article 137 (2) – Directors' Benefits

Subject to the Act, the Directors may:

(1) … (non-applicable section)

(2) Pay, provide for or procure the grant of donations, gratuities, pensions, allowances, bonuses, loans, credit, benefits or emoluments to,

….(non-applicable section)

any Directors (whether or not he holds or has held any executive office or employment with the Company or any other persons referred to in Article 137(a) and (b)), officers and employees and former Directors, officers and employees of:

(a) the Company; or

(b) any body corporate which is or has been a Subsidiary of the Company,

and any member of his family (including, a spouse and former spouse, his child and parents) or any person who is or was a dependant on him.

Article 138 – Directors' Share Schemes

(1) No Director shall participate in a share scheme for employees unless shareholders in general meeting have approved of the specific allotment to be made to such Director.

(2) Subject to Article 138(1), the Directors may establish, maintain and give effect to any scheme approved by the Company in general meeting for the allotment of or the grant of options to subscribe for shares of the Company to any Directors (who hold any executive office or employment with the Company), officers or employees of:

(a) the Company; or

(b) any body corporate which is or has been a subsidiary of the Company,

as may exercise all the powers given to them by such scheme (including (without limitation) any power to alter or add to the provisions of such scheme) and these Articles shall be deemed to be modified as far as may be necessary to give effect to such scheme for the time being in force in respect of any share or shares for the time being in issue or under option subject to such scheme.

3. MATERIAL CONTRACTS

Save as disclosed below, our Group has not entered into any material contracts (including contracts not reduced into writing), not being contracts entered into in the ordinary course of business) during the 2 years immediately preceding the date of this AP:-

(i) KNM Group Berhad's wholly-owned subsidiaries, Deutsche KNM GmbH and Borsig GmbH have executed a Facilities Agreement dated 18 December 2013 (**"FA"**) with UniCredit Bank AG (as Arranger), UniCredit Luxembourg S.A. (as Agent), UniCredit Luxembourg S.A. and other participating financial institutions to make available a credit facility of up to EUR220,000,000.00 to Deutsche KNM GmbH and its subsidiaries as mentioned below comprising the following facilities:-

Type of Facility	**Amount (EUR)**	**Original Borrowers**(1)
Term Loan	60,000,000.00(2)	Deutsche KNM GmbH
Guarantee	160,000,000.00	Deutsche KNM GmbH Borsig GmbH Borsig Process Heat Exchanger GmbH Borsig ZM Compression GmbH Borsig Membrane Technology GmbH Borsig Service GmbH Borsig Boiler Systems GmbH

Notes:
(1) As defined in the FA.
(2) Interest charged is between 2.67% to 4.07% per annum.

(ii) On 30 May 2014, KNM's wholly-owned subsidiary, KNM Process Systems Sdn Bhd ("**KNMPS**") executed an Agreement of Mutual Termination to *inter alia,* mutually terminate its Shareholders' Agreement dated 8 October 2008 with Prosernat SA in respect of the management and operations of their joint venture entity, KPN Gas Technology Sdn Bhd (now known as Prosernat (M) Sdn Bhd);

(iii) On 5 February 2015, KNMPS has entered into a Sale and Purchase Agreement with Northfield Global Limited for the disposal of *inter alia* KNMPS's entire business and equity interest in KNM Pty Ltd group for a total cash consideration of AUD2.00 only (equivalent to RM5.54);

(iv) On 12 March 2015, 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.

(v) On 13 March 2015, KNM entered into an Underwriting Agreement together with Affin Hwang IB (Managing Underwriter and Co-Underwriter) and MIDF Amanah Investment Bank Berhad (Co-Underwriter) for the underwriting of up to 325,553,823 Rights Shares for an underwriting commission of 1.50% and an additional managing underwriter fee of 0.25% on the issue price of RM0.50 per Rights Share; and

(vi) On 13 March 2015, KNM executed the Deed Poll B constituting Warrants B.

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4. MATERIAL LITIGATIONS, CLAIMS OR ARBITRATION

Save as disclosed below, as at LPD, neither our Company nor our subsidiaries is engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which may have a material and adverse effect on the business or financial position of our Group and your Board is not aware of any proceedings, pending or threatened, against our Company or our subsidiaries, or of any fact likely to give rise to any proceedings which may materially and adversely affect the business or financial position of our Group:-

(a) **KNMPS v Mission Biofuels Sdn Bhd ("MBSB")**
(Kuala Lumpur High Court Suit No.: D-22NCC-320-03/2012, D-22NCC-321-03/2012)
(Shah Alam High Court (Commercial Division) Suit No.: 24NCVC-688-04/2013)
(Kuala Lumpur High Court Suit No.: 24NCC (ARB)-33-08/2012, 24NCC(ARB)-53-11/2012)
(Court of Appeal Suit No. : W-02(NCVC)(CA)-808-05/2013)

On 7 March 2012, KNMPS commenced an action against MBSB for the sum of RM49,857,934.70 pursuant to the Engineering, Procurement, Construction and Commissioning Contract between KNMPS and MBSB dated 25 July 2007 (**"EPCC Contract"**) of a plant with biodiesel output (**"Biodiesel Plant"**) and RM804,123.10 for process engineering charges vide 2 suits; D-22NCC-320-03/2012 and D-22NCC-321-03/2012 respectively.

MBSB filed for a stay of proceedings on 30 March 2012 on grounds that the dispute was subject to arbitration. The orders for stay of proceedings pending arbitration were granted by the Kuala Lumpur High Court on 18 May 2012 and 3 September 2012. The matter is now subject to arbitration proceedings before the Kuala Lumpur Regional Centre for Arbitration (**"KLRCA"**). The arbitration is scheduled to begin on 30 March 2015.

KNMPS filed suit 24NCC(ARB)-33-08/2012 on 16 August 2012 seeking an order for MBSB to deposit the sum of RM49,857,934.70 with KNMPS' solicitors, as stakeholders pending the arbitration proceedings.

Parties subsequently entered into a Consent Order dated 25 October 2012 on terms that MBSB undertakes to inform KNMPS of any disposal of the Biodiesel Plant within 7 days from the execution of a sale and purchase agreement to any party, that from the sale proceeds from the disposal of the plant, MBSB shall deposit the sum of Australian Dollars $4,000,000.00 into a fixed deposit account held by MBSB within 7 days from the receipt of the sale proceeds and to be held until conclusion of the arbitration proceedings and in the event an award is published in favour of KNMPS, MBSB shall release the aforementioned sum with interest to KNMPS towards part or full settlement of the award as the case maybe within 3 days from the date of the award.

On 22 November 2012, KNMPS applied to set aside the Consent Order via Originating Summons No. 24NCC(ARB)-53-11/2012. KNMPS' application was dismissed on 22 February 2013.

On 5 April 2013, KNMPS filed suit 24NCVC-688-04/2013 for a declaration that KNMPS has a valid lien over the Biodiesel Plant, an order for sale pursuant to the declaration of lien and a mandatory injunction restraining MBSB from creating any charge over the said plant. The High Court dismissed this suit on 31 March 2014.

KNMPS appealed to the Court of Appeal vide W-02(NCVC)(A)-808-05/2014 against the decision of the High Court. The appeal was allowed on 29 October 2014. MBSB filed an application for leave to appeal to the Federal Court on 25 November 2014. The leave application is pending.

The solicitors acting on behalf of KNMPS are of the view that KNMPS has a reasonable prospect of succeeding in its claim against MBSB.

(b) **KNMPS v MBSB**
(Shah Alam High Court (Winding-Up) Petition No. : 28-461-11/2012
(Court of Appeal Civil Appeal No.: B-02-713-03/2013)
(Federal Court Civil Application No.: 08(f)-708-12/2014(B))

On 1 November 2012, KNMPS filed a winding-up petition under Section 218(1)(e) and (i) and Section 218(2)(c) of the Act against MBSB for RM50,662,057.80 for goods sold and delivered and works carried out by KNMPS for MBSB in relation to, inter alia, the EPCC Contract. MBSB filed to strike out the petition on 29 November 2012. The petition was dismissed by the High Court with cost on 12 March 2013.

KNMPS' appeal to the Court of Appeal was dismissed with cost on 17 November 2014.

KNMPS has filed an application for leave to appeal to the Federal Court. The application is fixed for Hearing on 24 June 2015.

KNMPS' solicitors are of the view that KNMPS has a reasonable chance of success.

(c) **MBSB v KNMPS**
(Shah Alam High Court (Winding-Up) Petition No. : 28-179-04/2013)
(Court of Appeal No.: B-02-1164-05/2-13)
(Federal Court Civil Application No.: 08(f)-29-01/2015(B))

On 15 April 2013, MBSB filed a winding-up petition under Section 218(1)(e) and (i) and Section 218(2)(c) of the Act against KNMPS for a debt of RM12.20 million being the delay liquidated damages under the EPCC Contract. On 22 April 2013 KNMPS filed an application to restrain MBSB from proceeding further upon the winding-up petition. On 9 May 2013, the High Court struck out the petition.

On 5 January 2015, the Court of Appeal dismissed MBSB's appeal with cost.

MBSB has filed an application for leave to appeal to the Federal Court. The application is fixed for hearing on 13 May 2015.

KNMPS' solicitors are of the view that KNMPS has a reasonable chance of success to oppose the leave application.

(d) **KNM and KNMPS v MBSB and 3 others**
(Kuala Lumpur High Court Suit No.: 22NCVC-376-05/2013)

On 31 May 2013, KNM and KNMPS served the above suit against MBSB and Mission NewEnergy Limited (**"MNEL"**) together with directors of MBSB on the basis that the winding-up petition by MBSB in Petition No. 28-179-04/2013 (please refer to paragraph (c) above) was presented maliciously and without reasonable or probable cause and further and/or in the alternative the defendants conspired together to injure KNM and KNMPS by presenting the winding-up petition through which maximum irreparable damage would be and was in fact caused to, inter alia, the reputation and goodwill of KNM and KNMPS.

KNM and KNMPS subsequently withdrew the action against 2 of the defendants. The defendants filed a striking out application on 8 July 2013. The striking out application is fixed to be heard on 10 April 2015. Trial dates were fixed on 29 and 30 June 2015 and 6 July 2015.

KNM and KNMPS' solicitors are of the view that the plaintiffs have a reasonable chance of success.

(e) **KNMPS v MNEL**
(Supreme Court of Western Australia CIV 1906 of 2014)

On 30 June 2014, KNMPS applied to the Supreme Court of Western Australia for MNEL to re-instate a corporate guarantee in favour of KNMPS under the EPCC Contract.

On 14 October 2014 the matter was stayed pending arbitration.

(f) **MNEL v KNMPS**
Singapore International Arbitration Centre (SIAC)
SIAC Arbitration No. 200 of 2014 (ARB200/14/KJ)

On 18 November 2014 MNEL commenced arbitration in Singapore in respect of the suit in paragraph (e) above. On 2 December 2014 KNMPS filed its response to the notice of arbitration.

The matter is pending the appointment of presiding arbitrator by the SIAC President.

(g) **Poratha Corporation Sdn Bhd v KNMPS**
(Johor Bahru High Court Suit No.: 23NCVC-192-10/2011, transferred to Shah Alam High Court Suit No.: 22NCVC-914-07/2012)
(Court of Appeal No.: B-02(NCVC)(W)-1548-09/2012 & B-02(NCVC)(W)-1675-09/2012)

On 28 October 2011, Poratha Corporation Sdn Bhd (**"Poratha Corporation"**) filed a claim against KNMPS for (i) a sum of RM213,272.48, being the aggregate of the balance contract sum, retention sum and sum for the additional work performed pursuant to a Sub-Contract Agreement between Poratha Corporation and KNMPS (**"Poratha Corporation-KNMPS Contract"**) for the supply by Poratha Corporation of, amongst others, manpower, supervision, handtools, transportation and accommodation to enable the completion of fabrication works and to meet the completion date pursuant to the Purchase Order dated 22 March 2011 (Purchase Order No.:11900180 YS 00002); and (ii) general damages in the amount of RM100,000.00.

KNMPS defended the claim by Poratha Corporation and had counterclaimed for, amongst others, (a) a sum of RM207,067.92, being the losses suffered by KNMPS; and (b) a sum of USD6,504,000.00 being the loss of opportunity/loss of future contract suffered by KNMPS.

The suit was transferred from the Johor Bahru High Court to the Shah Alam High Court. On 24 July 2014, the Court allowed the Plaintiff's claim and KNMPS counterclaim in part for the amount of RM32,000.00.

On 22 August 2014, KNMPS filed an appeal at the Court of Appeal against the decision of the High Court in allowing part of the counterclaim. On 17 September 2014 following leave obtained on 12 September 2014 KNMPS filed an appeal against the decision allowing Poratha Corporation's claim.

The matter is fixed for hearing on 26 March 2015.

The solicitors acting on behalf of KNMPS are of the view that KNMPS has a reasonable chance of success on the appeals.

(h) **KNMPS v Mission Biotechnologies Sdn Bhd ("MBT")**
(Kuala Lumpur High Court No.: 22NCC-381-03/2012
(Court of Appeal Civil Appeal No.: W-02(NCC) (W)-2768-12/2013)

On 16 March 2012 KNMPS filed a claim for a total amount of RM586,209.80 for the sale of palm fatty acid distillate to MBT. MBT filed a counter claim for RM1,006,351.40 and RM1,600,000.00 against KNMPS for claims of expenses incurred for the supply of raw materials and retention sums.

KNMPS had on 25 May 2012 filed an Order 14 application for Summary Judgment which the Court granted in favour of KNMPS for a sum of RM206,373.00. On 15 May 2013, the Court allowed KNMPS' claim of RM302,875.29. Trial of the suit was held on 15 and 16 May 2013 and 17 and 25 September 2013. On 28 November 2013 the High Court dismissed KNMPS' claim for the remainder sum of RM76,961.51 and allowed MBT's counterclaim for the amount of RM2,604,295.40.

On 18 December 2013 KNMPS filed an appeal against the High Court's decision.

MBT was voluntarily wound up on 10 March 2014.

On 11 November 2014 the Court of Appeal allowed in part KNMPS' appeal whereby part of the counterclaim against KNM for the sum of RM1,600,000.00 was reduced to RM400,000.00 which resulted to the total counterclaim of RM1,404,295.40 by MBT.

Consequently KNMPS claim against MBT of RM302,875.29 shall be set-off from the total counterclaim of MBT against KNMPS of RM1,404,295.40 and the total balance of the counterclaim by MBT after the said deduction amounts to RM1,101,420.11.

On 23 February 2015, KNMPS filed for an application at the Shah Alam High Court for the removal of the liquidator.

(i) **AXENS v MBSB & KNMPS**
(Shah Alam High Court No : D-22NCVC-995-08/2012)
(Civil Appeal No. B-02(NCVC)(W)-1670-09/2014)

On 9 August 2012, Axens filed a writ at Shah Alam High Court for the sum of USD835,296 including interest being payment for the supply of start-up and technical assistance services by Axens to the defendants.

The High Court decided on 5 September 2014 that KNMPS is solely liable to pay Axens' claim.

An appeal was filed at the Court of Appeal on 19 September 2014 by KNMPS. MBSB filed their appeal on 3 October 2014. KNMPS filed for an application for stay of execution at the High Court but was dismissed with costs on 12 November 2014.

On 9 December 2014, KNMPS filed an application to the Court of Appeal for a stay of execution. The application was heard by the panel of the Court of Appeal and held amongst others, a stay of execution was granted on condition that the judgment sum of USD791,278.43 together with interest and costs are to be deposited in a joint solicitors' account between both Messrs Zul Rafique & Partners and Messrs James Monteiro pending the final disposal of the appeal. The appeal against the High Court's decision is fixed for hearing on 9 April 2015.

The solicitors acting on behalf of KNMPS are of the view that KNMPS has a reasonable prospect of succeeding in the appeal.

5. GENERAL

(i) None of our Directors has any existing or proposed service contracts with our Company or our subsidiaries, excluding contracts expiring or determinable by the employing company without payments or compensation (other than statutory compensation) within one (1) year from the date of this AP.

(ii) The nature of our Company's business is disclosed in Section 1 of Appendix II of this AP. The details of our subsidiary, associated companies and jointly controlled entities as at the LPD are disclosed in Section 5 of Appendix II of this AP.

(iii) The estimated expenses of the Rights Issue with Warrants will be borne by our Company as disclosed under Section 4 of this AP.

(iv) Save as disclosed in this AP and to the best of knowledge of our Board, the financial conditions and operations of our Group are not affected by the following:-

(a) known trends, demands, commitments, events or uncertainties that will or are likely to materially increase or decrease the liquidity of our Group;

(b) save as disclosed in this AP (where relevant), our Board is not aware of any material information including trade factors or risks, which are unlikely to be known or anticipated by the general public and which could materially affect our profits;

(c) material commitments for capital expenditure;

(d) fluctuation in our Group's revenue;

(e) unusual or infrequent events or transactions or any significant economic changes that materially affect the amount of reported income from the operations of our Group; and

(f) known trends or uncertainties that have had or that our Group reasonably expects will have a material favourable or unfavourable impact on revenues or operating income of our Group.

6. WRITTEN CONSENTS

Our Principal Adviser, Managing Underwriter, Co-Underwriters, Company Secretary, Solicitors for the Rights Issue with Warrants, Share Registrar, Principal Bankers and Bloomberg Finance L.P. have given their full consents to the inclusion in this AP of their names in the form, manner and context in which such names appear before the issuance of this AP and their consents have not been subsequently withdrawn.

Our Auditors and Reporting Accountants for the Rights Issue with Warrants have given their consent to the inclusion of the auditors' report on the consolidated financial statements of our Company for FYE 31 December 2013 as set out in the Appendix IV of this AP and the letter on the Proforma Consolidated Statements of Financial Position of our Company as at 31 December 2013 as set out in the Appendix III of this AP respectively and their name in the form, manner and context in which they appear before the issuance of this AP and their consents have not been subsequently withdrawn.

7. DOCUMENTS FOR INSPECTION

Copies of the following documents will be made available for inspection at our Registered Office at 15 Jalan Dagang SB4/1, Taman Sungei Besi Indah, 43300 Seri Kembangan Selangor Darul Ehsan, during normal business hours from Monday to Friday (except public holidays) for a period of twelve (12) months from the date of this AP:-

(i) our Company's Memorandum and Articles of Association;

(ii) the Deed Poll A and Deed Poll B;

(iii) the audited and consolidated financial statements of our Company for the past two (2) FYE 31 December 2012 and 31 December 2013;

(iv) the latest unaudited quarterly results of our Group for FYE 31 December 2014;

(v) Proforma Consolidated Statements of Financial Position of our Company as at 31 December 2013 together with the Reporting Accountants' letter thereon as set out in Appendix III of this AP;

(vi) our Directors' Report as set out in Appendix VI of this AP;

(vii) the material contracts referred to in Section 3 above;

(viii) the writ and relevant cause papers in respect of the material litigations, claims or arbitration referred to in Section 4 above;

(ix) the letters of consent referred to in Section 6 above; and

(x) Letters of Undertakings.

8. RESPONSIBILITY STATEMENTS

Our Board has seen and approved the Documents and they acknowledge and accept full responsibility for the accuracy of the information given and confirmed that, after having made all reasonable enquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make the statements in the Documents false or misleading.

Affin Hwang IB being the Principal Adviser for the Rights Issue with Warrants, acknowledges that, based on all available information and to the best of their knowledge and belief, this AP constitutes a full and true disclosure of all material facts concerning the Rights Issue with Warrants.

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