

KNM GROUP BERHAD

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Unaudited)

1. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Individual Quarter		Cumulative Period to date	
	Unaudited 3 months ended 31.12.2015 RM'000	Audited 3 months ended 31.12.2014 RM'000	Unaudited 31.12.2015 RM'000	Audited 31.12.2014 RM'000
Contract revenue	457,429	451,236	1,641,282	1,865,131
Operating profit	31,540	56,985	165,743	167,880
Financing costs	(6,098)	(12,251)	(36,636)	(53,092)
Interest income	83	958	1,371	2,996
Share of profit/ (loss) of equity accounted investees, net of tax	(247)	(960)	(6,343)	465
Profit before tax	25,278	44,732	124,135	118,249
Tax expense	(19,607)	(44,794)	(76,236)	(78,497)
Net profit for the period	5,671	(62)	47,899	39,752
Other comprehensive income / (loss), net of tax				
Foreign currency translation differences	(78,532)	73,150	361,872	(22,294)
Net investment in subsidiaries	(16,343)	(36,720)	(116,535)	(93,605)
Cash Flow hedge	181	(2,364)	733	(5,399)
Share of other comprehensive income of equity accounted investee	297	432	1,335	119
Revaluation of property, plant and equipment	-	64,335	-	64,335
Other comprehensive income/ (loss) for the period, net of tax	(94,397)	98,833	247,405	(56,844)
Total comprehensive income/ (loss) for the period	(88,726)	98,771	295,304	(17,092)
Attributable to:				
Equity holders of the parent	6,006	462	49,527	42,187
Minority interest	(335)	(524)	(1,628)	(2,435)
	5,671	(62)	47,899	39,752
Total comprehensive income attributable to:				
Equity holders of the parent	(88,457)	99,764	299,818	(12,663)
Minority interest	(269)	(993)	(4,514)	(4,429)
Total comprehensive income/ (loss) for the period	(88,726)	98,771	295,304	(17,092)
Earnings per share:				
- Basic / Diluted (sen)	0.32	0.03	2.65	2.72

The notes set out on pages 5 to 17 form an integral part of and should be read in conjunction with this interim financial report

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2. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	Unaudited As at 31.12.2015 RM'000	Audited As at 31.12.2014 RM'000
Assets			
Non-current assets			
Intangible Assets		539,610	519,036
Goodwill		857,340	772,885
Property, plant and equipment		1,049,612	852,899
Other investment, including derivative		10,522	14,705
Investments in associates		23	24
Investments in jointly-controlled entities		1,315	5,383
Deferred Tax Assets		345,428	342,031
		<u>2,803,850</u>	<u>2,506,963</u>
Current assets			
Inventories		74,675	70,433
Contracts work in progress		497,952	491,925
Trade and other receivables		724,846	631,579
Cash and cash equivalents		198,857	208,508
		<u>1,496,330</u>	<u>1,402,445</u>
Assets classified as held for sale		-	21,155
		<u>1,496,330</u>	<u>1,423,600</u>
TOTAL ASSETS		<u>4,300,180</u>	<u>3,930,563</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		1,005,617	774,537
Treasury Shares		(53,414)	(53,402)
Reserves		1,766,592	1,440,911
		<u>2,718,795</u>	<u>2,162,046</u>
Non-controlling interests		<u>(9,099)</u>	<u>(4,285)</u>
Total Equity		<u>2,709,696</u>	<u>2,157,761</u>
Non-current liabilities			
Long term payable		51,691	52,142
Long service leave liability		6,347	2,886
Loans and borrowings	B9	346,092	218,099
Deferred taxation		218,595	219,222
		<u>622,725</u>	<u>492,349</u>
Current liabilities			
Payables and accruals		439,118	500,089
Deferred income		154,995	155,746
Loans and borrowings	B9	372,368	577,194
Current tax liabilities		1,278	1,100
		<u>967,759</u>	<u>1,234,129</u>
Liabilities classified as held for sale		-	46,324
		<u>967,759</u>	<u>1,280,453</u>
Total liabilities		<u>1,590,484</u>	<u>1,772,802</u>
TOTAL EQUITY AND LIABILITIES		<u>4,300,180</u>	<u>3,930,563</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>1.26</u>	<u>1.32</u>

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(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to equity holders of the parent							Distributable Reserve		Minority Interest RM'000	Total equity RM'000
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000	Hedging Reserve RM'000	Non-Distributable AFS Reserve RM'000	Warrant Reserve RM'000	Revaluation and Other Reserve RM'000	Retained Profit RM'000	Total RM'000		
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)	-	-	(50,406)	955	(54,850)	(1,994)	(56,844)
Profit for the year	-	-	-	-	-	-	-	42,187	42,187	(2,435)	39,752
Total comprehensive income for the year	-	-	-	(5,399)	-	-	(50,406)	43,142	(12,663)	(4,429)	(17,092)
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
Issuance of ordinary share - Private ESOS	1,174	-	376	-	-	-	-	-	1,550	-	1,550
Transfer to share premium for share option exercised	-	-	869	-	-	-	(869)	-	-	-	-
Share based payments	-	-	-	-	-	-	12,903	-	12,903	-	12,903
Share issue expenses	-	-	(2,159)	-	-	-	-	-	(2,159)	-	(2,159)
Change in ownership interest in a subsidiary	-	-	-	-	-	-	-	-	-	300	300
As at 31 December 2014 (Audited)	774,537	(53,402)	790,135	(5,076)	-	44,981	(346,243)	957,114	2,162,046	(4,285)	2,157,761
As at 1 January 2015	774,537	(53,402)	790,135	(5,076)	-	44,981	(346,243)	957,114	2,162,046	(4,285)	2,157,761
Other comprehensive income for the year	-	-	-	733	-	-	249,558	-	250,291	(2,886)	247,405
Profit for the year	-	-	-	-	-	-	-	49,527	49,527	(1,628)	47,899
Total comprehensive income for the year	-	-	-	733	-	-	249,558	49,527	299,818	(4,514)	295,304
Transaction with owners in their capacity as owner											
Share options exercised	23	-	7	-	-	-	-	-	30	-	30
Issuance of ordinary share - Right Issue	161,579	-	-	-	-	-	-	-	161,579	-	161,579
Issuance of ordinary share - Private Placement	96,946	-	-	-	-	-	-	-	96,946	-	96,946
Allocation of warrants reserve	(27,468)	-	-	-	-	27,468	-	-	-	-	-
Transfer to share premium for ESOS exercised	-	-	17	-	-	-	(17)	-	-	-	-
Share pay-back	-	(12)	-	-	-	-	-	-	(12)	-	(12)
Share based payment	-	-	-	-	-	-	5,575	-	5,575	-	5,575
Change in ownership interest in a subsidiary	-	-	-	-	-	-	-	-	-	(300)	(300)
Share issue expenses	-	-	(7,187)	-	-	-	-	-	(7,187)	-	(7,187)
As at 31 DECEMBER 2015 (Unaudited)	1,005,617	(53,414)	782,972	(4,343)	-	72,449	(91,127)	1,006,641	2,718,795	(9,099)	2,709,696

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KNM GROUP BERHAD

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED
31 DECEMBER 2015**

(Unaudited)

	31.12.2015	31.12.2014
	RM '000	RM '000
Cash flows from operating activities		
Profit before tax	124,135	118,249
Adjustments for:		
Amortisation of intangible assets	35,102	35,597
Share based payment	5,575	12,902
Depreciation	8,700	9,813
Interest expense	30,493	48,759
Interest income	(1,371)	(2,996)
Loss/(Gain) on foreign exchange-unrealised	(98,076)	(58,224)
(Gain)/Loss on disposal of property, plant and equipment	-	(3,177)
Share of loss of in associates and jointly-controlled entities	6,343	(465)
Change in fair value of forward contract	5,162	9,724
Property, plant and equipment written off	-	425
Allowance for Impairment loss of doubtful debts	550	-
Impairment loss of goodwill	-	6,672
Impairment loss of property, plant and equipment	-	(2,179)
(Reversal)/Provision for foreseeable losses	-	549
(Reversal)/Provision for late delivery charges	-	1,167
Reversal of impairment of other investment	-	(153)
Gain on disposal of subsidiaries	(19,880)	-
Gain on disposal of joint venture	-	(709)
Gain on disposal of other investment	-	(2,437)
Operating profit before working capital changes	<u>96,733</u>	<u>173,517</u>
Decrease / (Increase) in working capital:		
Inventories	5,874	1,240
Receivables, deposits and prepayments	63,762	(54,306)
Payables and accruals and long service leave liability	(146,546)	(45,584)
Cash used in operations		
Income taxes paid	(19,135)	(52,164)
Interest paid	(560)	(840)
Interest received	1,371	2,996
Net cash generated from/ (used in) operating activities	<u>1,499</u>	<u>24,859</u>
Cash flows from investing activities		
Increase in pledged deposit placed in bank	15,309	(10,295)
Purchase of property, plant and equipment, net with government grant received	(45,488)	(13,568)
Proceed from disposal of joint ventures	-	2,092
Proceed from disposal of other investment	-	6,325
Proceed from issuance of share to non-controlling interests	-	300
Disposal of subsidiaries, net of cash outflow	(4,834)	-
Purchase of other intangible assets, net with government grant received	(1,973)	(902)
Proceeds from disposal of property, plant and equipment	-	13,473
Net cash (used in) / generated from investing activities	<u>(36,986)</u>	<u>(2,575)</u>
Cash flows from financing activities		
Share buy back	(12)	(12)
Net repayment of bill payable	(17,950)	(77,778)
Repayment of hire purchase liabilities	(5,439)	(14,320)
Net drawdown/ (repayment) of term loan and revolving credit	(51,277)	(59,134)
Interest expenses	(29,933)	(47,919)
Proceeds from issuance of shares	258,556	104,222
Share issue expenses	(7,187)	(2,159)
Net cash generated from financing activities	<u>146,758</u>	<u>(97,100)</u>
Net increase / (decrease) in cash and cash equivalents	111,271	(74,816)
Cash and cash equivalents at beginning of period	193,668	256,573
Effect of foreign currency translation	(108,596)	11,911
Cash and cash equivalents at end of period	<u>196,343</u>	<u>193,668</u>
Cash & bank balances	193,684	189,902
Deposits with licensed banks	5,172	23,440
Less: Pledged deposits	-	(15,309)
	<u>198,856</u>	<u>198,033</u>
Bank overdraft	(2,513)	(4,365)
	<u>196,343</u>	<u>193,668</u>

Notes to the Quarterly Interim Financial Report – 31 December 2015

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 2014. 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 2014.

A2. Significant Accounting Policies

The audited financial statements of the Group for the year ended 31 December 2014 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 2014.

The Group has adopted the following Amendments and Annual improvements to standards, with a date of initial application of 1 January 2015.

Amendments to MFRS 2, Amendments to MFRS 3	<i>Share-based Payment (Annual Improvements 2010-2012 Cycle) Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)</i>
Amendments to MFRS 8 Amendments to MFRS 13	<i>Operating Segments (Annual Improvements 2010-2012 Cycle) Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)</i>
Amendments to MFRS 116	<i>Properties, Plant and Equipment (Annual Improvements 2010-2012 Cycle)</i>
Amendments to MFRS 124 Amendments to MFRS 138	<i>Related Party Disclosures (Annual Improvements 2010-2012 Cycle) Intangible Assets (Annual Improvements 2010-2012 Cycle)</i>

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

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

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

MFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to MFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)</i>
Amendments to MFRS 7	<i>Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)</i>
Amendments to MFRS 10	<i>Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to MFRS 10	<i>Consolidated Financial Statements, MFRS 12, Disclosure of Interests in Other Entities and MFRS 128, Investments in Associates</i>

	<i>and Joint Ventures – Investment Entities: Applying the Consolidation Exception</i>
Amendments to MFRS 11	<i>Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to MFRS 101	<i>Presentation of Financial Statements – Disclosure Initiative</i>
Amendments to MFRS 116	<i>Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to MFRS 119	<i>Employee Benefits (Annual Improvements 2012-2014 Cycle)</i>
Amendments to MFRS 127	<i>Separate Financial Statements – Equity Method in Separate Financial Statements</i>
Amendments to MFRS 134	<i>Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)</i>

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017:

MFRS 15	<i>Revenue from Contracts with Customers</i>
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MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018:

MFRS 9	<i>Financial Instruments (2014)</i>
Amendments to MFRS 7	<i>Financial Instruments : Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures</i>

The adoptions of the above pronouncements do not have any impact on the financial statements of the Group other than for the two Standards mentioned below, for which the effects are still being assessed:

MFRS 15	<i>Revenue from Contracts with Customers</i>
MFRS 9	<i>Financial Instruments</i>

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 2014.

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 except for share issued under the ESOS scheme, Rights Issue and Private Placement.

B. As at the date of this report, the Company has repurchased a total 23,311,275 of its issued shares capital from the open market. The average price paid for the shares repurchased was RM2.29 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 31.12.2015 RM'000	Gross Profit 12 months ended 31.12.2015 RM'000	EBITDA 12 months ended 31.12.2015 RM'000
Asia & Oceania	521,897	101,999	143,118
Europe	1,024,959	216,311	107,493
Americas	94,426	21,531	12,533
	<hr/>	<hr/>	<hr/>
	1,641,282	339,841	263,144

	Revenue 12 months ended 31.12.2014 RM'000	Gross Profit 12 months ended 31.12.2014 RM'000	EBITDA 12 months ended 31.12.2014 RM'000
Asia & Oceania	483,763	116,910	79,614
Europe	1,274,849	277,415	168,230
Americas	106,519	24,406	21,584
	<hr/>	<hr/>	<hr/>
	1,865,131	418,731	269,428

A10. Valuation of property, plant and equipment

Valuation of freehold lands of the Group have been brought forward without amendment from the financial statements for the year ended 31 December 2014.

There is no revaluation of property, plant and equipment during the period under review.

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

There was no material event subsequent to the end of the reporting period and up to the date of issuance of this report.

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 follows:-

1. The de-registration/striking-off of the dormant Subsidiaries as per item B8(1) are currently ongoing.
2. On 5 February 2015, KNM Process Systems Sdn Bhd (“KNMPS”) has entered into a Sale and Purchase Agreement (“SPA”) with Northfield Global Limited (the “Purchaser”) for the disposal of *inter alia* KNMPS 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).
3. On 16 February 2015, KNM Group Berhad’s wholly-owned group subsidiary, KNM Process Equipment Inc. (“KNMPEI”), has fully subscribed and completed its subscription of One (1) Class “C” ordinary share in relation to the incorporation of 1840355 Alberta Ltd (“Alberta”) for a total cash consideration of CAD1.00 only (equivalent to RM2.87).
4. On 16 March 2015, KNM Group Berhad’s wholly-owned subsidiary, KNM Process Systems Sdn Bhd (“KNMPS”) had entered into a Joint Venture Agreement (“JVA”) with Hansol EME Co., Ltd (“Hansol”) to *inter alia* set up a joint venture company called Hansol KNM Greentech Sdn Bhd (“HKG” or “JVCO”) on 60% (Hansol) : 40% (KNMPS) basis.
5. On 22 April 2015, KNM Group Berhad’s group subsidiary, Borsig Membrane Technology GmbH had disposed its entire 14.13% equity interest (comprising of 4 ordinary shares) in PolyAn Gesellschaft zur Herstellung von Polymeren für Spezielle Anwendungen und Analytik mbH to Fridjof Andreas Bruno Lechhart and Dr. Karl-Ulrich Schellhaas for a total cash consideration of EUR30,650.00 (about RM 128,117) only.
6. On 3 July 2015, KNM Renewable Energy Sdn Bhd (“KNMRE”) a wholly owned subsidiary of KNM Group Berhad (“KNM”), had incorporated a wholly-owned subsidiary, Global Green Energy Corporation Ltd (“GGECL”) and invested/subscribed for 1 ordinary share for nominal value of GBP1.00 (about RM5.87).
7. On 6 July 2015, Green Energy Corporation Ltd (“GGECL”) has incorporated a wholly-owned subsidiary, Peterborough Green Energy Ltd (“PGEL”) and invested/subscribed for 1 ordinary share for nominal value of GBP1.00 only (about RM5.87).
8. On 11 August 2015, KNM Group Berhad invested and subscribed for 29 ordinary shares of RM1.00 each representing 29% equity stake in Konsortium AHHK Sdn Bhd (formerly known as Ultra Cendana Sdn Bhd) [“KAHHK”] for a total cash consideration of RM29.00 only.
9. On 1 September 2015, KNM Group Berhad’s wholly-owned subsidiary, KNM International Sdn Bhd (“KNMI” or “Purchaser”) has entered into a Shares Sale Agreement (“SSA”) with Paul Antonius Verwater (the “Vendor”) to acquire *inter alia* the Vendor's entire shareholding of 375,000 ordinary shares (representing 50% equity interest) in Verwater KNM Sdn Bhd (“VKSB”) for a total cash consideration of RM1.00 only.
10. On 14 September 2015, KNM Group Berhad’s wholly-owned indirect group subsidiary, KNM Borsig Services Sdn Bhd (“KNMBS”), has fully completed its investment/subscription of One (1) ordinary share in relation to the incorporation of Borsig Services Australia Pty Ltd (“BSAPL”) for a total cash consideration of AUD1.00 only (about RM3.074).

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	63,762	8,851
Investment	66,884	-
	<u>130,646</u>	<u>8,851</u>

A15. Related party transactions

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

	RM'000
Inter Merger Sdn Bhd (a)	
- Office rental, related charges and administrative expense	1,679
I.M.Bina Sdn Bhd (b)	
-General construction and civil works	15,024
KPS Technology & Engineering LLC (c)	
-Administrative and other support - services	344
Tofield Realty Development Corporation (d)	
- General and civil contractor and provider of staff accommodation	389

(a) a company in which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors

(b) a company in which Inter Merger Sdn Bhd is the holding company

(c) a company in which Mr. Lee Swee Eng is a substantial shareholder

(d) a wholly-owned subsidiary of Asiavertek, of which Mr. Lee Swee Eng and Madam Gan Siew Liat are directors and shareholders

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

B1. Review of performance

The Group achieved revenue of RM1,641 million, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of RM263.14 million and profit after tax and minority interest of RM49.53 million for the year ended 31 December 2015. Compared to the previous year, the lower revenue this year was due to the existing jobs are towards completion stage and new secured orders are at its early stage, where approximately 67% of the new orders were secured in secured half of the year. Most of the revenue contributions from these new orders will be recognised in financial year ending 31 December 2016 onwards.

The higher profit before tax this year was due to the lower operating cost, gain arising from disposal of certain operating units, gain on foreign exchange and lower financing cost. Accordingly, the Group has achieved higher profit after tax (excluding deferred taxation) of RM103.72 million which registered an improvement of RM39.30 million or 61% as compared to corresponding period in 2014 of RM64.42 million.

Asia & Oceanic Segment

The revenue contribution from this segment improved mainly to the orders related to Pengerang Integrated Complex (“PIC”) project. Besides gain arising from disposal of certain operating units, this segment has also recorded higher EBITDA due to lower operating cost and gain on foreign exchange.

Europe Segment

Europe segment has registered lower revenue contribution and EBITDA mainly due to existing jobs are towards completion stage and new secured orders are at its early stage.

Americas Segment

The revenue and EBITDA contribution from this segment remains profitable despite facing challenges and uncertainties in oil sands, shale oil and shale gas industries.

B2. Variation of results against preceding quarter

The Group recorded a revenue of RM457.43 million for the quarter under review compared with preceding quarter’s revenue of RM458.18 million. Profit before taxation reported has decreased by approximately 11% to RM25.28 million compared with immediate preceding quarter’s profit before taxation of RM28.53 million due to additional provision for warranty in certain foreign operations.

B3. Prospects

The Group’s business segments are well diversified in onshore downstream industries such as petrochemical, refining and renewable energy. The weak crude oil price has relatively less adverse impact on the Group’s performance. The Board expects the market conditions to be challenging with the current uncertainties in global economy. As such, the Group has strengthened its capital base by equity funding.

B4. Profit forecast

Not applicable as no profit forecast was given.

B5. Tax expense

	3 months Ended 31.12.2015 RM'000	3 months Ended 31.12.2014 RM'000	12 months Ended 31.12.2015 RM'000	12 months Ended 31.12.2014 RM'000
Current	1,133	27,265	18,349	50,426
Prior period	245	4,314	2,071	3,403
Deferred tax	18,229	13,215	55,816	24,668
	<u>19,607</u>	<u>44,794</u>	<u>76,236</u>	<u>78,497</u>

The Group's effective tax rate for the financial period 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 period 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 period to date.

B8. Status of corporate proposals announced but not completed

- 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-DP Harta Bina Sdn Bhd*	24 September 1994/ Malaysia	RM200,000	93	In progress
KNM Engineering Services Private Limited	4 October 2006/ India	INR100,000	100	In progress

**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"). TKS B 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 Berhad.*

- 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.

3. 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 Corp. 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”) [collectively referred to as the “ABL Group” which, owns 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 USD\$24,000,000.00 only (equivalent to RM88,488,000.00) (the “Consideration”).

Subsequently, the parties have mutually agreed to *inter alia* reduce the Consideration to USD21.6 million (“Revised Consideration”) and the Revised Consideration shall be satisfied wholly in cash. The said Acquisition is expected to be completed by Q1 of 2016.

4. On 19 June 2015, KNM Group Berhad’s (“KNM”, as the “Guarantor”) wholly-owned subsidiary, Splendid Investments Limited (“Splendid”, as the “Issuer”), has established a multicurrency medium term note (“MTN”) programme of an initial size of up to SGD300 million (the “Programme”).

The Programme is unconditionally and irrevocably guaranteed by KNM and as at to-date, no notes have been issued by the Issuer under the Programme.

5. On 12 November 2015, the Company had completed its Private Placement exercise upon full subscription, listing and quotation of the 193,893,700 Placement Shares at RM0.50 each on the Main Market of Bursa Securities. The gross proceeds raised from the Private Placement Exercise was RM96,946,850.00 and the current utilisation status is as set out below:-

Purpose	Proposed utilization	Actual utilisation	Timeframe for utilisation	Deviation	
				RM'000	%
Repayment of borrowings	46,364	(46,364)	Within six (6) months	-	-
Working capital	47,908	(47,908)	Within twelve (12) months	-	-
Defrayment of expenses related to the Proposed Placement	2,675	(2,675)	Within one (1) month	-	-
Total	96,947	(96,947)			

B9. Group borrowings and debt securities

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

	RM'000
Short term:	
Borrowings (secured)	47,385
Borrowings (unsecured)	136,286
Bank Overdraft	2,513
Bill Payable	109,518
Hire Purchase	6,740
Revolving credit	69,926
	<u>372,368</u>
Long term :	
Borrowings (secured)	69,976
Borrowings (unsecured)	137,339
Hire Purchase	20,850
Revolving credit	117,927
	<u>346,092</u>
	<u>718,460</u>

The above are also inclusive of other borrowings in foreign currency of RMB 20.00 million, EUR 59.87 million, CAD 6.10 million, USD 63.62 million and AED 0.20 million.

The exchange rates used are 1 RMB = RM 0.6611, 1 EUR = RM 4.6925, 1 CAD = RM 3.0936, 1 USD = RM4.2930 and AED = RM1.1688.

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 2015 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	350,517	23,694
-1 year to 3 years	70,202	1,748
	<u>420,719</u>	<u>25,442</u>

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 PERIOD

	3 Months ended 31.12.2015 RM'000	3 Months ended 31.12.2014 RM'000	12 Months ended 31.12.2015 RM'000	12 Months ended 31.12.2014 RM'000
(a)				
Profit for the period is arrived at after charging and crediting:				
Allowance for impairment loss on doubtful debt	238	1,242	550	1,242
Bad debts written off	450	1,484	1,727	2,882
Net loss/(gain) on foreign exchange	(11,539)	(31,187)	(99,055)	(50,026)
Net (gain)/loss on derivative	(1,819)	2,241	5,162	9,724
Amortisation of intangible asset	9,615	8,682	35,102	35,597
Provision/(Reversal) for warranty	5,586	(753)	9,252	-
Provision/(reversal) of late delivery charges	1,023	2,973	(849)	1,167
Provision for foreseeable losses	55	549	55	549
Gain on disposal of subsidiaries	2,274	-	(19,880)	-
Share based payment	1,561	7,367	5,575	12,902
Impairment of property, plant and equipment	-	1,139	-	1,139
Impairment of goodwill	-	6,672	-	6,672
Loss on disposal of other investment	257	-	257	-
Interest income	83	958	1,371	2,996
Gain on disposal of other investment	-	-	-	2,437
Reversal of impairment of property, plant and equipment	-	3,318	-	3,318
(b)				
Financing costs	6,098	7,918	36,636	48,759
(c)				
Depreciation charge for the period:				
Income statement	1,995	3,718	8,700	9,813
Construction work in progress	12,694	12,719	53,599	56,138
	<u>14,689</u>	<u>16,437</u>	<u>62,299</u>	<u>65,951</u>

B12. Realised and Unrealised Profit/Losses Disclosure

	As at 31 December 2015 RM'000	As at 31 December 2014 RM'000
Total retained profit of KNM Group and its subsidiaries		
- Realised	523,215	557,566
- Unrealised	(166,080)	(170,131)
Total share of accumulated losses from associated companies:		
- Realised	(6)	(6)
- Unrealised	-	-
Total share of retained profit / (accumulated losses) from joint venture entities:		
- Realised	(8,530)	270
- Unrealised	1,007	126
Add: Consolidation adjustments	657,035	569,289
Total Group retained profits as per consolidated accounts	1,006,641	957,114

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 Federal Court Appeal No.: 08(f)-708-12/2014(B)

KNM Process Systems Sdn Bhd (Petitioner) v. Mission Biofuels Sdn Bhd (Respondent)

KNM Group Berhad wholly –owned subsidiary, KNM Process System Sdn Bhd (“KNMPS”) had on, 9 November 2012 served a Winding Up Petition under Section 218 (1) (e) & (i) and Section 218 (2) (c) of the Companies Act 1965 dated 1 November 2012 (the “KNMPS Petition”) against Mission Biofuels Sdn Bhd (“Mission Biofuels”).

The KNMPS Petition was heard and dismissed by the High Court on 12 March 2013 on the grounds that the Court was not satisfied that, taking into account Mission Biofuels contingent and prospective liabilities, Mission Biofuels was unable to pay its debts.

KNMPS appealed to the Court of Appeal and the matter was dismissed on 17 November 2014 with cost of RM20,000.00 to be paid to Mission and the deposit to be refunded to KNMPS.

KNMPS has filed for leave to appeal at the Federal Court and on 24 June 2015, the leave application was dismissed with cost of RM15,000.00 awarded to Mission after hearing full submissions.

Pursuant to an out of court settlement on 4 August 2015, the parties have reached global settlement on all court cases.

2. Shah Alam High Court (Commercial Division)
Suit No. : 28-179-04/2013
Court of Appeal No.: B-02-1164-05/2013
Federal Court Appeal No.: 08(f)-29-01/2015(B)

Mission Biofuels Sdn Bhd (Petitioner) v. KNM Process Systems Sdn Bhd (Respondent)

On 19 April 2013, KNM Group Berhad's wholly-owned subsidiary, KNM Process System Sdn Bhd ("KNMPS") was served with a Petition for winding up under Section 21(8) (e) & (i) and Section 218 (2) (c) of the Companies Act 1965 (the "Act") dated 15 April 2013 (the "Mission Petition") by pursuant to an EPCC Contract dated 25 July 2007 for the development of a Biodiesel Plant located in Kuantan Port.

The Mission Petition was heard and struck out by the Courts with cost on 9 May 2013 on the ground that the petition was not only without basis and therefore frivolous and vexation, but also a clear abuse of process of court.

On 14 May 2013 Mission filed an appeal against the order of the court striking out the petition.

On 5 January 2015, the Court of Appeal dismissed Mission's appeal with cost of RM20,000 to be paid to KNM.

On 13 May 2015, the Federal Court dismissed Mission's leave application with cost of RM10,000.00 awarded to KNM.

Pursuant to an out of court settlement on 4 August 2015, the parties have reached global settlement on all court cases.

3. In the Matter of Arbitration Between KNM Process System Sdn Bhd (Claimant) and Mission Biofuels Sdn Bhd (Respondent)

KNM Group Berhad's wholly-owned subsidiary, KNM Process System Sdn Bhd ("KNMPS") had on 30 April 2014, filed its Points of Claim in an arbitration proceedings in connection with the Engineering, Procurement, Construction and Commissioning Contract dated 25 July 2007 ("EPCC"). This Arbitration was part of KNM Group's legal action to protect and preserve KNMPS' right and monetary claims for various works and services provided in respect of the EPCC. KNMPS was claiming for approximately RM120 million in the arbitration.

The hearing of the arbitration proceeding was held on 28 July 2015.

The parties have entered into an out of court Settlement Agreement to amicably settle and resolve full and finally all claims, disputes, differences and issues in respect of all litigation/arbitration cases between KNM Process Systems Sdn. Bhd. and Mission Biofuels Sdn. Bhd.

Pursuant to an out of court settlement on 4 August 2015, the parties have reached global settlement on all court cases.

**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
Federal Court Appeal No. 08(f)-645-11/2014 (W)**

KNM Process Systems Sdn Bhd v. Mission Biofuels Sdn Bhd

On 31 March 2014, the High Court judge dismissed KNM Process System Sdn Bhd (“KNMPS”) application and an appeal was filed in the Court of Appeal, Putrajaya. On 29 October 2014, the Court of Appeal unanimously reaffirmed KNMPS’s right to an equitable Lien over the biodiesel plant owned by Mission Biofuels, a wholly-owned subsidiary of Mission NewEnergy Limited (MNEL), a company listed both on the Australian Stock Exchange (under “MBT:ASX”) and in the US OTC (under “MNEL:OTCBB”), in connection with the Engineering, Procurement, Construction and Commissioning Contract dated 25 July 2007 (“EPCC”).

Mission Biofuels Sdn Bhd had filed for leave to appeal at the Federal Court and the hearing at Federal Court for the leave application is to be held on 25 August 2015.

Pursuant to an out of court settlement on 4 August 2015, the parties have reached global settlement on all court cases.

B14. Dividend payable

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

B15. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Basic earnings per share				
Net Profit attributable to shareholders (RM’000)	6,006	462	49,527	42,187
Number of shares at the beginning of the year (‘000)	1,639,035	1,490,014	1,639,035	1,490,014
Issuance of share- Private Placement (‘000)	27,623	87,201	27,623	87,201
Share option exercised (‘000)	37	710	37	710
Effect of Rights Issue (‘000)	223,997	-	223,997	-
Effect of Share Buy Back (‘000)	(23,297)	(23,278)	(23,297)	(23,278)
Weighted average number of shares (‘000)	1,867,395	1,554,647	1,867,395	1,554,647
Basic earnings per share (sen)	0.32	0.03	2.65	2.72

B16. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 25 February 2016.