

General Announcement

Reference No **KG-111206-62632**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
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Type : **Announcement**
Subject : **OTHERS**
Description : **SHARE SUBSCRIPTION AGREEMENT WITH GREEN ENERGY AND TECHNOLOGY SDN BHD AND OCTAGON CONSOLIDATED BERHAD**
Attachments : [Appendix 1.doc](#)

Announcement Details/Table Section :

1. INTRODUCTION

The Board of Directors of KNM Group Berhad (“KNM” or “the Company”) is pleased to announce that KNM Renewable Energy Sdn Bhd (“KNMRE”), a wholly-owned subsidiary of the Company had on 6 December 2011 entered into a Share Subscription Agreement (“SSA”) with Green Energy and Technology Sdn Bhd (“GreenTech”) and Octagon Consolidated Berhad (“Octagon”) to subscribe for a total of 10 million 8% Redeemable Convertible Preference Shares of RM0.01 each (“RCPS”) in GreenTech, a subsidiary of Octagon for a total cash consideration of RM10 million only (“Consideration”) or RM1.00 per RCPS (“Proposed Subscription”).

2. INFORMATION ON KNMRE AND GREENTECH

KNMRE was incorporated as a private limited company under the laws of Malaysia on 4 October 2006. Its registered address and principal place of business are at 15 Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan. KNMRE is principally involved in the provision of process technology for the biofuels and seeds extraction plants, provision of turnkey services, including operation and maintenance services for biofuels and seeds extraction plants and related investments in the renewable energy industries. Its authorised share capital is currently RM100,000 divided into 100,000 ordinary shares of RM1.00 each and its issued and paid-up is RM2.00.

GreenTech, was incorporated as a private limited company under the laws of Malaysia on 17 November 2003 and its registered address is at 52-C Rangoon Road, 10400 Penang, Malaysia. GreenTech is principally involved in investment holding and design, engineer, construct, commission and operate waste to energy plants. Its authorised

share capital is currently RM100,000,000 comprising of 100,000,000 ordinary shares of RM1.00 each, of which RM58,982,000 were issued and paid-up.

3. DETAILS OF THE PROPOSED SUBSCRIPTION

3.1 Salient terms and conditions of the SSA

On the date of SSA, KNMRE shall be obliged to subscribe for, and GreenTech shall be obliged to allot and issue 10 million RCPS, to KNMRE upon the terms and subject to the conditions of the SSA.

The salient terms of the RCPS are set out in Appendix I.

3.2 Conditions precedent

The Proposed Subscription is conditional upon, *inter alia*, the fulfillment or satisfaction of the following conditions precedent ("Conditions Precedent") within 7 days from the date of the SSA:-

- (a) the approval and agreement of the Board of KNMRE to invest and subscribe for the RCPS in GreenTech;
- (b) receipt by KNMRE of a written confirmation from GreenTech that there are no material adverse effects (as set out in the SSA); and
- (c) receipt by KNMRE of the duly executed Directors' and members' (where relevant) resolutions of GreenTech approving or authorising, *inter alia*, the Proposed Subscription and issuance and allotment of RCPS.
- (d) Tadhamon Capital B.S.C. (C) extends the financial close date under a Murabaha Agreement dated 29 December 2009 to a date being no earlier than 30 June 2012.

3.3 Conditions subsequent

Notwithstanding anything to the contrary appearing in the SSA, the SSA is conditional upon the fulfillment or satisfaction of the following conditions subsequent ("Conditions Subsequent"):-

- (a) adoption by GreenTech of its Articles of Association substantially as are necessary to reflect in full the terms of the SSA within 30 business days from the date of the SSA and a copy each of the said amendments and proof of registration have been received by KNMRE;
- (b) the appointment of one nominee of KNMRE as Director and alternate Director to the Board of GreenTech not later than 30 days from the date of the SSA; and
- (c) satisfaction of a due diligence enquiry on GreenTech to be undertaken by KNMRE.

3.4 Fulfillment of Conditions Precedent and Conditions Subsequent

Notwithstanding items 3.2 and 3.3 above, KNMRE may in its sole and absolute discretion waive the fulfillment of any one or more of the Conditions Precedent and/or Conditions Subsequent in writing.

If all the Conditions Precedent cannot be fulfilled at the times when such fulfillment is required under the SSA, through no fault or neglect of either parties, the SSA shall automatically terminate and be of no further force and effect and neither party shall have any claim in respect of and arising out of the SSA save and except for any antecedent breaches thereof.

If the Conditions Subsequent are not fulfilled or waived by KNMRE, KNMRE shall have the right of requiring GreenTech to redeem all (and not part only) of the RCPS at the Redemption Price (as set out in Appendix I) and/or exercising the put option as set out below to Octagon.

3.5 Put option

Notwithstanding any other terms to the contrary appearing herein, KNMRE shall have the right to sell all (and not part only) of the RCPS to Octagon and Octagon shall purchase all (and not part only) of the RCPS from KNMRE at the earlier of the following events:-

(i) in the event GreenTech does not achieve Financial Close (the time in relation to GreenTech's project in Sri Lanka where drawdowns of the financing are allowed, that is where all financing agreements have been executed and all conditions have been fulfilled or waived) within 13 months from the date of this SSA;

(ii) the Conditions Subsequent are not achieved or waived as the case may be;

(iii) in an event of default of GreenTech (other than the specific event of default as set out below); or

(iv) in the specific event of defaults as set out below:-

(a) GreenTech commits a breach of the agreements, contracts or other documents relating to the issuance and allotment of RCPS to KNMRE which is incapable of being remedied or being capable of remedy, is not remedied such breach within 30 business days from the date of receipt of a written notice from KNMRE stating the nature of the breach and requiring its remedy;

(b) GreenTech disposes its assets including a merger, acquisition, change of control, consolidation, issuance or transfer of shares or other transactions or series of transactions following which the shareholders of GreenTech will not retain a majority of the voting power in the surviving entity or a sale, lease, license or other transfer of GreenTech's assets or intellectual property or ceases, threatens or proposes to cease its business;

(c) GreenTech is guilty of any fraudulent or dishonest act; and

(d) the ownership of any intellectual property of GreenTech is sold to a third party without written consent from KNMRE,

at Redemption Price on the occurrence of any events (i) to (iii) above or at 3 times the

Consideration on the occurrence of event (iv) above.

3.6 Completion

Not later than 30 days from the date all the Conditions Precedent are fulfilled:-

(a) GreenTech shall issue and allot the RCPS to KNMRE free from all encumbrances and credited as fully paid up; and

(b) GreenTech shall enter the name of KNMRE in the registers of GreenTech as the holder of the RCPS and issue and deliver to KNMRE a duly executed share certificate of RCPS.

3.7 Expected timeframe of completion

Barring any unforeseen circumstances, the Proposed Subscription is expected to be completed by last quarter of 2011.

3.8 Consideration

The payment of Consideration shall be made by KNMRE not later than 5 days from the date all the Conditions Precedent are fulfilled.

4. RATIONALE FOR THE PROPOSED SUBSCRIPTION

The Proposed Subscription will provide an avenue for the Group after conversion to own and control the in-house developed proprietary Advanced Plasma Gasification Technology for Waste to Energy Plant under GreenTech which could be deployed to other future potential projects.

5. FINANCIAL EFFECTS OF THE PROPOSED SUBSCRIPTION

5.1 Share Capital

The Proposed Subscription does not affect the share capital of KNM.

5.2 Earnings

The Proposed Subscription is not expected to have any material effect on the consolidated earnings of KNM and KNM Group of Companies ("KNM Group") for the financial year ending 31 December 2011.

5.3 Substantial Shareholders' Shareholdings

The Proposed Subscription does not affect the shareholdings of the substantial shareholders in KNM.

5.4 Net Assets and Gearing

The Proposed Subscription will not have any material effect on the consolidated net assets and gearing of KNM and KNM Group for the year ending 31 December 2011.

6. RISK FACTORS

The Proposed Subscription is subject to certain risks mainly in the power and renewable energy industries and legislation on clean energy in Sri Lanka. These include changes in general economic conditions such as, but not limited to inflation, taxation, foreign exchanges, interest rates, labour and material supply, changes in business and operating conditions such as, but not limited to government and statutory regulations and deterioration in prevailing market conditions.

The Proposed Subscription does not alter the risk profile of KNM as KNM Group is already operating in these industries and hence would continue to be exposed to risk factors that they currently face whilst operating in the industry.

Although KNM Group with its vast experience may undertake efforts to mitigate the various risks, there is no assurance that any change in the above factors will not have a material adverse effect on the business and operations of KNM and/or KNMRE.

7. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors, major shareholders, persons connected to the Directors and/or major shareholders of the Company has any interest, direct or indirect, in the Proposed Subscription.

8. DIRECTORS' STATEMENT

Having considered all aspects of the Proposed Subscription, the Board of Directors is of the opinion that the Proposed Subscription is in the best interest of the Company.

9. CONDITION OF THE PROPOSED SUBSCRIPTION

The Proposed Subscription is not subject to the approvals of any governmental authority and/or the shareholders of KNM.

10. DOCUMENTS FOR INSPECTION

Details of the SSA are available for inspection at the registered office of KNM at 15 Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia for three (3) months from date of this Announcement during normal business hours from Mondays to Fridays.

This announcement is dated 6 December 2011.

SUBSCRIPTION OF 10 MILLION 8% REDEEMABLE CONVERTIBLE PREFERENCE SHARES OF RM0.01 EACH (“RCPS”) IN GREEN ENERGY AND TECHNOLOGY SDN BHD (“GREENTECH”), A SUBSIDIARY OF OCTAGON CONSOLIDATED BERHAD (“OCTAGON”) BY KNM RENEWABLE ENERGY SDN BHD (“KNMRE”), A SUBSIDIARY OF KNM GROUP BERHAD (“KNM”) FOR A TOTAL CASH CONSIDERATION OF RM10 MILLION OR RM1.00 PER RCPS (“PROPOSED SUBSCRIPTION”)

Salient Terms of the RCPS

Issuer	:	Green Energy and Technology Sdn Bhd
Issue Size	:	10,000,000 RCPS.
Issue Price	:	RM1.00 per RCPS.
Par Value	:	RM0.01 per RCPS.
Dividend Rate	:	<p>The holder of RCPS shall have the right to receive a fixed cumulative preferential dividend at the rate of 8% per annum, calculated based on the total subscription price (“Subscription Price”) paid on each RCPS by that holder (“RCPS Dividend”) to be paid to the extent that there are profits available.</p> <p>The RCPS Dividend shall be paid in preference to any dividend declared over the other classes of shares in GreenTech.</p>
Tenure	:	3 years commencing from and including the date of the RCPS are allotted. The tenure can be extended for another 2 years subject to mutual consent of the holder of RCPS and GreenTech. (“Tenure”)
Redeemability	:	<p>Each RCPS shall confer on the holder thereof, upon maturity or upon request by holders of no less than 51% of the then outstanding RCPS, the rights to require GreenTech to redeem any or all of the outstanding RCPS, beginning on the earlier of :-</p> <ul style="list-style-type: none"> (i) an event of default of GreenTech (other than the specific event of default below); (ii) in the event no Financial Close (the time in relation to GreenTech’s project in Sri Lanka where drawdowns of the financing are allowed, that is where all financing agreements have been executed and all conditions have been fulfilled or waived) is obtained within 13 months from the date of the SSA; or (iii) in a specific event of default as set out below:- <ul style="list-style-type: none"> ▪ GreenTech commits a breach of the agreements, contracts or other documents relating to the issuance and allotment of RCPS to holder of RCPS which is incapable of being remedied or being capable of remedy, is not remedied such breach within 30 business days from the date of receipt of a written notice from the holder of RCPS stating the nature of the breach and requiring its remedy;

- GreenTech disposes its assets including a merger, acquisition, change of control, consolidation, issuance or transfer of shares or other transactions or series of transactions following which the shareholders of GreenTech will not retain a majority of the voting power in the surviving entity or a sale, lease, license or other transfer of GreenTech's assets or intellectual property or ceases, threatens or proposes to cease its business;
- GreenTech is guilty of any fraudulent or dishonest act; or
- the ownership of any intellectual property of GreenTech is sold to a third party without written consent from the holder of RCPS,

at the Redemption Price (as defined below) at the occurrence of events (i) or (ii) above and at 3 times Subscription Price at the occurrence of event (iii) above.

In the event on maturity, the holder of RCPS does not elect to convert the RCPS, the RCPS will automatically be redeemed by GreenTech at the Redemption Price.

If on the redemption date, the number of RCPS that GreenTech is able to legally redeem is less than the number requisitioned for redemption, the RCPS holder shall have the right to claim for any outstanding Redemption Price.

Redemption Price : Subscription Price plus cumulative rate of return of 15% per annum to the date of redemption ("Redemption Price").

Conversion : After the allotment of the RCPS, the RCPS holder shall have the right to convert all (and not part only) of its RCPS into:-

1. at least 51% of the issued and enlarged ordinary shares in GreenTech,

at the earlier of the following events ("Events"):-

- (i) no Financial Close is obtained within 13 months from the date of the SSA; or
- (ii) in the event due diligence is not satisfactory; or
- (iii) an event of default by GreenTech.

For avoidance of doubt, in the event that the conversion price (after multiplying with the number of GreenTech Shares to be converted) is higher than the Subscription Price, the holder of RCPS shall pay for the difference ("Additional Sum") to GreenTech on conversion. In the event the said conversion price (after multiplying with the number of GreenTech Shares) is lower than the Subscription Price, the RCPS shall be converted into GreenTech Shares which is more than 51% of the issued and enlarged ordinary shares in GreenTech based on the conversion price.

2. 51% of the issued and enlarged ordinary shares in GreenTech by paying an Additional Sum,

if the conversion is not arising from the aforesaid Events.

("Conversion")

Conversion Price	: Conversion Price means Subscription Price per RCPS plus Additional Sum per GreenTech Share (if applicable), which shall be the lower of:-
	(i) the value of GreenTech as determined by a reputable independent professional valuer to be appointed by the holder of the RCPS; and
	(ii) the cost of investment per share of Octagon in GreenTech as verified by a reputable independent accountant firm which shall be appointed by the holder of the RCPS,
	at the earlier of the aforesaid Events.
	If Conversion is not arising from the aforesaid Events, the Conversion Price shall be Octagon's cost of investment per share in GreenTech as verified by a reputable independent public accountant firm to be appointed by the holder of RCPS.
	In the event that Conversion shall be lower than the par value of GreenTech Share, Octagon shall take all necessary steps including but not limited to a reduction in the share capital of GreenTech such that the Conversion Price per RPCS into GreenTech Share shall be no higher than the value per share determined by the reputable independent professional valuer.
Voting Rights	: The RCPS are non-voting shares except:-
	(i) with respect to any resolutions directly or indirectly affecting the rights of the RCPS;
	(ii) on a winding up of GreenTech;
	(iii) capital reduction and/or capital repayment by GreenTech;
	(iv) for contractual or statutory voting rights; and
	(v) in any other circumstances provided for by Malaysian law.
Rights of Holders in the event of Winding Up or Scheme of Arrangement	: The holder of RCPS shall have the preferential rights and priority over holders of all other classes of preference shares and/or ordinary shares in GreenTech in respect of the payment of a sum equivalent to the aggregate Subscription Price of the outstanding RCPS plus cumulative rate of return of 15% per annum together with any accrued but unpaid dividends (whether or not declared).
Amendment to the RCPS Holders' Rights	: The rights attached to the RCPS may not be varied, modified, deleted or abrogated in any way whether directly or indirectly without the prior written consent of the holders of not less than half of such RCPS.
Ranking	: The rights attached to the RCPS shall rank pari passu with all other holders of redeemable convertible preference shares in GreenTech but shall be superior to any rights attached to any other preference shares issued by GreenTech.
Governing Law	: Laws and regulations of Malaysia