

NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) : FUND RAISING KNM GROUP BERHAD ("KNM" OR THE "COMPANY") PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED SHARES IN KNM

KNM GROUP BERHAD

Type	Announcement
Subject	NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) FUND RAISING
Description	KNM GROUP BERHAD ("KNM" OR THE "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED SHARES IN KNM

On behalf of the Board of Directors of KNM, M&A Securities Sdn Bhd wishes to announce that the Company proposes to implement a private placement of up to 213,281,400 new ordinary shares in KNM to independent third party investor(s) to be identified ("Proposed Private Placement").

Further information on the Proposed Private Placement is disclosed in the attachment herein.

This announcement is dated 10 November 2017.

Please refer attachment below.

Attachments

[KNM Proposed Private Placement 101117.pdf](#)

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KNM GROUP BERHAD ("KNM" OR THE "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED SHARES IN KNM

1. INTRODUCTION

On behalf of the Board of Directors of KNM ("Board"), M&A Securities Sdn Bhd ("M&A Securities") wishes to announce that the Company proposes to undertake a private placement of up to 10% of the issued shares of KNM ("Proposed Private Placement").

The Proposed Private Placement will be undertaken in accordance with the general mandate pursuant to Section 75 and 76 of the Companies Act, 2016 ("Act") obtained from the shareholders of the Company at its Fifteen (15th) Annual General Meeting ("AGM") which was convened on 15 June 2017, whereby the Board had been authorised to allot and issue new ordinary shares in KNM ("KNM Shares" or "Shares") not exceeding 10% of the issued shares of the Company ("Shareholders' Mandate").

Further details of the Proposed Private Placement are set out in the ensuing sections below.

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

As at 8 November 2017, being the last practicable date preceding the date of this announcement ("LPD"), KNM has:-

- (a) An issued and paid-up share capital of RM1,066,418,381 (excluding Treasury Shares) comprising 2,132,814,580 KNM Shares;
- (b) 23,341,275 ordinary shares held as treasury shares ("Treasury Shares");
- (c) 517,652,416 outstanding warrants issued on 16 November 2012 and expiring on 15 November 2017 ("Warrants-A");
- (d) 161,578,504 outstanding warrants issued on 22 April 2015 and expiring on 21 April 2020 ("Warrants-B"); and
- (e) 64,206,028 existing outstanding employees' share option scheme ("ESOS Options").

The Proposed Private Placement will entail the issuance of up to 213,281,400 new KNM Shares ("Placement Share(s)") representing not more than 10% of the issued shares of the Company as at the LPD at an issue price to be determined and announced at a later date.

The actual number of KNM Shares to be issued pursuant to the Proposed Private Placement will be determined at a later date, after obtaining the relevant regulatory approvals. Subject to the prevailing market conditions, the Proposed Private Placement may be implemented in multiple tranches, if required, within six (6) months from the date of approval by Bursa Malaysia Securities Berhad ("Bursa Securities") for the Proposed Private Placement (depending on investors' interest at the point of implementation) or any extended period as may be approved by Bursa Securities, until the conclusion of the next AGM of the Company and provided that the Company must not issue the Placement Shares if the Placement Shares when aggregated with the nominal value of KNM Shares or convertible securities issued during the preceding twelve (12) months, exceeds 10% of issued share capital of KNM (excluding treasury shares). As such, there could potentially be several price fixing dates depending on the number of tranches and timing of implementation.

2.1 Basis of arriving at the issue price of the Placement Shares

The issue price of each tranche of the Placement Shares, where applicable, shall be determined separately and fixed by the Board at a later date after obtaining the relevant approvals for the Proposed Private Placement. The Board will take into consideration amongst others, the prevailing market conditions and the provisions of Paragraph 6.04(a) of the Main Market Listing Requirements of Bursa Securities ("MMLR"), in determining the issue price of the Placement Shares at a discount of not more than 10% to the volume weighted average market price ("VWAMP") of KNM Shares for the five (5) market days immediately preceding the price fixing date(s).

For illustrative purposes, assuming the Placement Shares are issued at an indicative issue price of RM0.25 per Placement Share ("Indicative Issue Price") based on an approximate 7.27% discount to the VWAMP of KNM Shares for the five (5) market days up to the 9 November 2017 of RM0.2696, the Proposed Private Placement is expected to raise gross proceeds of up to approximately RM53,320,350.

The mechanism to determine the issue price of the Placement Shares is in accordance with market based principles.

2.2 Placement arrangement

The Placement Shares are proposed to be placed to independent investor(s) ("Placee(s)") to be identified at a later date. In accordance with Paragraph 6.04(c) of the MMLR of Bursa Securities, the Placement Shares will not be placed to the following parties:-

- (a) the interested director, interested major shareholder or interested chief executive of KNM or a holding company of KNM (if applicable), or interested person(s) connected with such director, major shareholder or chief executive; and
- (b) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

Additionally, Placees shall also be person(s) or party(ies) who/which qualify under Schedules 6 and 7 of the Capital Markets and Services Act, 2007.

2.3 Ranking of the Placement Shares

The Placement Shares to be issued pursuant to the Proposed Private Placement shall, upon issuance and allotment, rank *pari passu* in all respects with the then existing issued KNM Shares, save and except that the holders of the Placement Shares shall not be entitled to any dividends, rights, allotments and/or other forms of distributions that may be declared, made or paid to the shareholders of the Company, for which the relevant entitlement date precedes the date of issuance of the Placement Shares.

2.4 Listing of and quotation for the Placement Shares

KNM shall make an application to Bursa Securities for the listing of and quotation for the Placement Shares to be issued pursuant to the Proposed Private Placement on the Main Market of Bursa Securities.

2.5 Utilisation of proceeds

For illustration purposes, based on the proposed placement size of up to 213,281,400 Placement Shares and assuming the Placement Shares are issued at an indicative issue price of RM0.25 per Placement Share, the Proposed Private Placement is expected to raise gross proceeds of up to RM53,320,350. The proceeds raised are expected to be utilised in the following manner:-

Details	RM'000	Notes	#Expected time frame for utilisation of proceeds
Repayment of bank borrowings	40,000	(a)	Within twelve (12) months
Working capital requirements	11,865	(b)	Within one (1) month
Defrayment of expenses related to the Proposed Private Placement	1,455	(c)	Within one (1) month
Total estimated proceeds	<u>53,320</u>		

Notes:-

From listing date of Placement Shares on the Main Market of Bursa Securities.

(a) Repayment of bank borrowings

The Company intends to utilise the proceeds of RM40.0 million to pare down and reduce the utilisation of its trade and project financing facilities. The interest rates and the tenure of the facilities are set out below:-

Facilities	Average tenure	Interest rate (% per annum)	Proposed repayment RM'000	Purpose of borrowing
Trade facilities – Bankers acceptance and foreign trust receipts	30 -120 days	2.60% -7.75%	20,000	To finance trade purchases
Project financing	1- 3 months	3.92%- 7.75%	20,000	To finance project working capital
Total			<u>40,000</u>	

As at the LPD, the total outstanding borrowings of KNM Group is RM1,266,181,321. The proposed repayment will reduce the KNM and its subsidiaries ("KNM Group" or "Group") overall gearing level from 0.53 to 0.50 times as set out in Section 4.2 of this announcement and result in an expected annual interest savings of approximately RM2.3 million per annum, assuming the weighted average effective interest rate of 5.8% per annum.

(b) **Working capital requirements**

The amount of RM11.90 million has been earmarked to finance the working capital requirements of the Group, as follows:-

No.	Description	RM'000
(i)	Fabrication of process equipment to carry out in fabrication plants located in Malacca, Pahang, Selangor and Johor (steel plates and head plates, sub-contractor services such as material testing services and transportation, electrodes, fittings, piping, paintings, valves, flanges, utilities, gas and diesel)	7,000
(ii)	Undertaking engineering, procurement and construction ("EPC") services for renewable energy projects such as waste-to-energy power plants, biomass and ethanol plants of the Group located in Malaysia and overseas. The proceeds raised shall be utilised for the various EPC services performed, which includes payment for scaffolding, civil and construction contractor services, transportation services, manpower services as well as purchasing piping and fittings.	4,865
Total		11,865

- (c) This includes payment of fees to the relevant authorities, advisory and placement fees. If the actual expenses are higher than the amount budgeted, the deficit will be funded out of the working capital. Conversely, if the actual expenses are lower than the amount budgeted, the excess will be utilised for the working capital. The breakdown of estimated expenses for the Proposed Private Placement is as follows:-

No.	Description	RM'000
(i)	Advisory and placement fees	1,403
(iii)	Others (fees to relevant authorities and miscallenous)	52
Total		1,455

The actual proceeds to be raised from the Proposed Private Placement are dependent on the issue price of the Placement Shares and actual number of Placement Shares issued. Any excess or shortfall of the actual proceeds raised will be adjusted against the utilisation for the working capital requirements of the Group.

Pending the full utilisation of the proceeds raised from the Proposed Private Placement, the Company intends to place these proceeds (including accrued interest, if any) or the balance thereof in interest-bearing deposit accounts with licensed financial institution(s) or in short-term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used as additional working capital of the Group.

3. RATIONALE

The Proposed Private Placement will allow the KNM Group to raise the necessary funding for purposes set out under Section 2.5 above.

The Board is of the opinion that the Proposed Private Placement is the most cost-effective source of capital to meet the Group's working capital needs in the short-term and the most expeditious way of fund raising from the capital market as opposed to other forms of fund raising, as the Company has procured the Shareholders' Mandate.

4. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

4.1 Share capital

The pro forma effects of the Proposed Private Placement on the share capital of KNM (excluding Treasury Shares) are as follows:-

	(iv) No. of KNM Shares '000	RM'000
Share capital as at LPD	2,132,815	1,066,418
To be issued pursuant to the Proposed Private Placement	213,281	(i)53,320
Issued and paid-up share capital	2,346,096	1,119,738
Assuming the full exercise of the following:-		
- Warrants-B	161,579	(ii)161,579
- ESOS Options	64,206	(iii)41,734
	2,571,881	1,655,456

Notes:-

- (i) Based on the Indicative Issue Price.
- (ii) Assuming that the 161,578,504 Warrants-B are exercised into the new KNM Shares at the exercise price of RM1.00 per Share, as per the terms of the deed poll governing the issuance of Warrants-B dated 13 March 2015
- (iii) Assuming that the 64,206,028 outstanding ESOS Options are exercised into new KNM Shares at the exercise price of RM0.65 per share, as per the terms of the ESOS By-Laws governing the ESOS Options.
- (iv) Assuming none of the 517,652,416 Warrants-A are exercised prior to its expiry on 15 November 2017.

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4.2 Net Assets ("NA") and gearing

The pro forma effects of the Proposed Private Placement on the consolidated NA per KNM Share and gearing position of the Group based on the latest audited consolidated financial statement of financial position of the Group as at 31 December 2016 and assuming Indicative Issue Price, are as follows:-

	Audited as at 31 December 2016	^(a)Subsequent events up to the LPD and assuming expiry of Warrants-A	After Proposed Private Placement	Assuming full exercise of Warrants-B, outstanding ESOS Options and resale of Treasury Shares
	RM'000	RM'000	RM'000	RM'000
Share capital – ordinary shares	1,005,617	1,050,621	^(b) 1,103,941	1,353,009
Share premium	782,971	782,971	^(c) 781,516	781,516
Treasury reserve	(53,422)	(53,425)	(53,425)	-
Revaluation reserves	93,301	93,301	93,301	93,301
Translation reserves	(212,700)	(212,700)	(212,700)	(212,700)
ESOS reserve	18,287	18,287	18,287	-
Hedging reserves	(2,337)	(2,337)	(2,337)	(2,337)
Warrant reserve	72,449	27,468	27,468	-
Retained earnings	681,252	681,252	681,252	634,129
Total equity attributable to owners of the Company/NA	2,385,418	2,385,438	2,437,303	2,646,918
Non-controlling interest	3,455	3,455	3,455	3,455
Total equity	2,388,873	2,388,893	2,440,758	2,650,373
No. of Shares ('000)	2,132,801	2,132,815	2,346,096	2,595,222
NA per ordinary share (RM)	1.10	1.10	1.00	1.00
Borrowings (interest-bearing) (RM'000)	1,321,399	^(d) 1,266,181	1,226,181	1,266,181
Gearing ratio (times)	0.60	0.53	0.50	0.48

Notes:-

(a) After adjusting the following subsequent events up to the LPD, as follows:-

- (i) Purchase of 10,000 KNM Shares on 5 June 2017 from the open market at a cost of RM2,846, as Treasury Shares;
- (ii) Allotment of 23,161 and 52 new KNM Shares on 26 October 2017 and 8 November 2017, respectively resulting from the exercise of Warrants-A and the exercise price is RM0.98 per KNM Share; and
- (iii) Reversal of warrants reserve for Warrants-A which shall be expiring on 15 November 2017, amounted to approximately RM45.0 million.

(b) Based on the Indicative Issue Price.

(c) After adjusting for the estimated expenses relating to the Proposed Private Placement of approximately RM1.46 million.

(d) Based on the outstanding bank borrowings of KNM Group as at the LPD.

4.3 Earnings and earnings per share (“EPS”)

The utilisation of proceeds from the Proposed Private Placement is expected to be earnings accretive as it shall be primarily utilised to finance the repayment of bank borrowings and working capital requirements of the Group, as stated in Section 2.5 above. The Proposed Private Placement is expected to contribute positively to the earnings of the Group for the financial year ending 31 December 2017 and for the future years as and when the benefits of the utilisation of proceeds are realised.

The EPS of the Group will however be proportionately diluted as a result of the increase in the number of shares after the Proposed Private Placement.

4.4 Dividends

The Proposed Private Placement will not have any effect on the dividend policy of the Company, if any. Future dividends to be declared by the Company will be dependent on, *inter-alia* the future financial performance as well as cash position of the Group, after taking into consideration the working capital requirements, capital expenditures need for future growth and business expansion.

4.5 Convertible securities

The Company does not have any other outstanding convertible securities as at the LPD save for the following:-

- (a) 517,652,416 Warrants-A (which shall expire on 15 November 2017);
- (b) 161,578,504 Warrants-B; and
- (c) 64,206,028 ESOS Options.

The Proposed Private Placement will not give rise to any adjustment to the exercise price and/or number of outstanding Warrants-A, Warrants-B and outstanding ESOS Options pursuant to the provisions of the deed polls constituting Warrants-A and Warrants B, as well as and the by-laws governing the Company's ESOS Options, respectively.

Save as disclosed above, the Company does not have any other convertible securities.

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4.6 Substantial shareholders' shareholdings

The pro forma effects of the Proposed Private Placement on the shareholding of the substantial shareholders of KNM based on the Company's records as at the LPD are set out in the table below:-

Substantial shareholders	As at LPD				After the Proposed Private Placement			
	<----Direct---->		<---Indirect--->		<----Direct---->		<----Indirect---->	
	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%
Inter Merger Sdn Bhd	227,856	10.7	46,207 ^(a)	2.2	227,856	9.7	46,207 ^(a)	1.9
Ir Lee Swee Eng	37,409	1.8	329,103 ^(b)	15.4	37,409	1.6	329,103 ^(b)	14.0
Gan Siew Liat	9,045	0.4	329,103 ^(c)	15.4	9,045	0.39	329,103 ^(c)	14.0

**Upon full exercise of Warrants-B,
outstanding ESOS Options and resale of
Treasury Shares**

Substantial shareholders	<----Direct---->		<----Indirect---->	
	No. of Shares ('000)	%	No. of Shares ('000)	%
Inter Merger Sdn Bhd	237,549	9.2	^(a) 46,207	1.8
Ir Lee Swee Eng	48,327	1.9	^(b) 346,948	13.4
Gan Siew Liat	17,813	0.7	^(c) 346,948	13.4

Notes:-

- (a) Deemed interested by virtue of Inter Merger Sdn Bhd's ("IMSB") financing transaction with Credit Suisse International.
- (b) Deemed interested by virtue of his indirect interest in IMSB, direct interest in Tegas Klasik Sdn Bhd ("TKSB"), direct interest in Aveda Assets Capital Inc. ("Aveda") and interest of his children in KNM.
- (c) Deemed interested by virtue of her indirect interest in IMSB, interest of her spouse in TKSB and Aveda, and interest of her children in KNM.

5. APPROVALS REQUIRED

The Proposed Private Placement is subject to the approvals being obtained from the following:-

- (a) Bursa Securities, for the listing of and quotation for the Placement Shares to be issued pursuant to the Proposed Private Placement on the Main Market of Bursa Securities; and
- (b) Any other relevant persons or regulatory authorities, if required.

Approval has been obtained from the shareholders of KNM at the Fifteen (15th) AGM convened on 15 June 2017 authorising the Board to allot and issue new KNM Shares not exceeding 10% of the issued shares in the Company pursuant to Sections 75 and 76 of the Companies Act, 2016. The approval is valid, unless revoked or varied by the Company at a general meeting, until the conclusion of the next AGM of KNM. Therefore, the Proposed Private Placement does not require another specific approval from the shareholders of KNM.

The Proposed Private Placement is not conditional upon any other corporate proposals undertaken or to be undertaken by KNM.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors and/or substantial shareholders of KNM and/or person connected with them have any interest, whether direct or indirect, in the Proposed Private Placement.

7. DIRECTORS' RECOMMENDATION

The Board, after having considered all aspects of the Proposed Private Placement (including, but not limited to the rationale as set out in Section 3 and the effects as set out in Section 4 of this announcement), is of the opinion that the Proposed Private Placement is in the best interest of the Group and its shareholders.

8. ADVISER AND PLACEMENT AGENT

M&A Securities has been appointed as the Adviser and Placement Agent to the Company for the Proposed Private Placement.

9. ESTIMATED TIME FRAME FOR COMPLETION

Barring unforeseen circumstances, the application to Bursa Securities in relation to the Proposed Private Placement is expected to be made within two (2) months from the date of this announcement. The Proposed Private Placement is expected to be completed by the first quarter of 2018.

This announcement is dated 10 November 2017.