

**TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) : NON RELATED PARTY TRANSACTIONS
Proposed Disposal of entire equity interest in Borsig ZM Compression GmbH by Borsig GmbH -
Additional Information**

KNM GROUP BERHAD

Type	Announcement
Subject	TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) NON RELATED PARTY TRANSACTIONS
Description	Proposed Disposal of entire equity interest in Borsig ZM Compression GmbH by Borsig GmbH - Additional Information

The announcement made by the Company on 28 August 2019 refers.

Unless otherwise defined, the terms used herein shall have the same meaning as defined in the announcement dated 28 August 2019. The Company wishes to furnish additional information pertaining to the Proposed Disposal as can be seen in the attachment below.

Please refer attachment below.

Attachments

[Additional Information on Porposed Disposal of BZM.pdf](#)

227.1 kB

1. To provide the name of purchaser including the directors and substantial shareholders together with their respective direct and/or indirect shareholdings as per requirement under Paragraph (4)(c) Part A of Appendix 10A of Main Market Listing Requirements.

The name of the Purchaser (as written in the SPA) is Borsig ZM Schweiz AG, a company organized and existing under the laws of Switzerland, registered with the commercial register of Kanton Zug under registration number CH-170.3.043.636-8 and the company identification number is (UID) CHE-409.325.545, with business address at Industriestrasse 13C, 6300 Zug, Switzerland.

The current board members are Vitalij Bulat and Daniil Bulat and the sole and ultimate shareholder is Oleg Bychkov as shown in the register extract of the Purchaser.

2. To provide the background of Iskra-Neftegaz Compressor Limited Liability Company (Guarantor) and nature of relationship between Purchaser and Guarantor.

The name of the Guarantor (as written in the SPA) is Iskra-Neftegaz Compressor Limited Liability Company ("INGC"), a company organized and existing under the laws of Russia, registered with the Moscow inter-district federal tax service inspectorate no. 46 with primary state registration number (OGRN) 1107746528735, with business address at 5/3, off. 207, Vavilova St., 119334 Moscow, Russia.

The corporate information of INGC are generally available on their corporate website, <http://ingc.ru/en/>.

The Purchaser and the Guarantor are affiliates because they have the same shareholder, Oleg Bychkov.

3. We note that BZM was in a net losses and has a net asset value of EUR1.4 million. In this respect, to provide further justification (other than what has been disclosed) on how the purchase price of EUR28 million was arrived at.

The justification provided earlier stated in KNM's initial announcement has clearly provided justification on the proposed disposal. The purchase price is the result of the negotiations and a fair evaluation of BZM agreed by both the Seller and the Purchaser. It has taking into consideration of the net assets of BZM, future business performance and financial potential of BZM together with the rights to use the name and tradenames of "BORSIG" for a period of ten (10) years within the limits of the SPA. During the negotiation, Seller has also considered the effect of the shareholder loans granted by the Seller to BZM and the expectation of the gain on disposal.

4. Details/nature of adjustment that may result in the variation to the purchase price of EUR28 million

Upon the Closing Date, for the calculation of a potential Purchase Price adjustment, the Net Assets as defined in the SPA (i.e. the shareholder loans provided by the Seller to BZM plus the equity of BZM) will be compared as at 31 March 2019 (reference date) with a date when the conditions precedents are fulfilled but not later than the Closing Date. The difference will either increase or decrease the Purchase Price. This is the sole mechanism.

5. To quantify the total outstanding shareholder's loan provided by the BORSIG (Seller) to BZM, reasons for written-off the loan and whether it is in the best interests of KNM Group.

The total amount of the outstanding shareholder loan as at 30 June 2019 provided by the Seller to BZM is approximately EUR 15.4 million. During negotiation, the Purchaser required that upon completion of the Proposed Disposal, the shareholder's loan is to be written off from the balance

sheet of BZM. However, the Purchase Price negotiated by Seller has taking into consideration the impact of the shareholder's loan amount to be written off and still have a gain on disposal of EUR4.01 million. As such, we believe that the agreed structure, including the Purchase Price is in the best interest of KNM Group.

6. Proposed intention of KNM with regard to the utilisation of proceeds of EUR27.5 million to be received from the Disposal.

Once KNM received the proceeds from the repayment of shareholder's loan from BORSIG, the proceeds will be used for:

	Proceeds (EUR'million)	Expected time frame for utilisation of proceeds from the Proposed Disposal
1. Repayment of bank borrowing	15.0	Within 3 month
2. Working capital	12.5	Within 3 months
Total estimated proceeds	27.5	

Notes:

- (a) The proceeds earmarked for working capital will be utilised to finance the day-to-day operating cost of KNM Group and the utilisation is estimated as below:

Description	EUR' million
<ul style="list-style-type: none"> Operating overheads mainly for factory and administrative fixed overheads. For example, staff payroll, office rental and utilities. 	6.0
<ul style="list-style-type: none"> Payment to trade and other creditors including procurement of materials (steel plates, base frames and chemicals) and payment to subcontractor for fabrication works and other professional services. 	6.5

7. To quantify the total corporate guarantees provided by BORSIG Group to BZM's customers and supplier and clarify further whether the Disposal will be free from encumbrances including the corporate guarantee.

The total amount of the outstanding corporate guarantees is about EUR4.6 million. The Purchaser shall indemnify and hold harmless the Seller from any and all liabilities, costs, expenses, damages and losses arising out of or in connection with any corporate guarantees. Such indemnity is guaranteed by both the Guarantor and BZM. The Disposal will be free from encumbrances.

8. Tabulate the breakdown in arriving at the estimated gain of EUR4.01 million and whether this would have any effects to the earnings and earning per share (“EPS”) to KNM Group.

Kindly see tabulation below:

Estimated financial impact of disposal of BZM at KNM on consolidation basis

	Unaudited Million Euro
Sales of proceed of BZM	28.00
Less : Net asset value of BZM as at 31/12/2018	(1.40)
Less : Proportionate Goodwill allocated from Parent, Borsig Group, attributable to BZM as at 31/12/2018	(6.51)
Less : Proportionate intangible assets including trademark and developed technology allocated from Borsig Group attributable to BZM as at 31/12/2018, net of tax	(0.52)
Less : Selling and related costs	(0.15)
Less : Repayment of outstanding advances taken from shareholders	(15.40)
Gain on disposal to KNM Group on consolidation basis	<u>4.01</u>
Average exchange rate to RM as at 27/8/2019	4.67
<u>Effect to the earnings of KNM as at 31/12/2018 :</u>	
Gain on disposal of BZM at KNM on consolidation basis in RM Million	<u>18.72867</u>
Weighted average number of shares of KNM as at 31/12/2018	2,346,095,981
Earnings /(Loss) per share as at 31/12/2018 before the Proposed disposal in Sen	(33.03)
Earnings /(Loss) per share as at 31/12/2018 after the Proposed disposal in Sen	(32.23)
Improvement to the earnings per share to KNM as at 31/12/2018	<u>2.42%</u>

The Proposed Disposal is not expected to have any material impact on the earnings and EPS of KNM Group for the financial year ending 31 December 2019.

9. Reasons as to why shareholders’ approval is not required for the Disposal.

None of the related percentage ratio for this transaction triggers 25% or more of the requisite requirements under Paragraph 10.07 of the Main Market Listing Requirements. The highest percentage ratio determined was at 8.5% based on the comparison with the net assets of KNM.

This announcement is dated 3 September 2019.