

NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) : FUND RAISING 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	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 234,609,500 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 18 April 2019.

Please refer attachment below.

Attachments

[180419 - PP.pdf](#)

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

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED ORDINARY 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 ordinary shares of KNM ("Proposed Private Placement").

The Proposed Private Placement will be undertaken in accordance with the general mandate pursuant to Sections 75 and 76 of the Companies Act 2016 ("Act") obtained from the shareholders of the Company at its Annual General Meeting ("AGM") convened on 27 June 2018, 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 ordinary shares of the Company ("Shareholders' Mandate").

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

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

As at 16 April 2019, being the latest practicable date preceding the date of this announcement ("LPD"), KNM has

- (a) an issued and paid-up capital of RM1,883,497,604 comprising 2,346,095,980 KNM Shares (excluding 23,341,275 KNM Shares held as treasury shares by the Company) ("Treasury Shares");
- (b) 161,578,504 outstanding warrants-B ("Warrants-B"); and
- (c) 91,170,660 outstanding employees' share option scheme ("ESOS Options").

The Proposed Private Placement will involve the issuance of up to 234,609,500 new KNM Shares ("Placement Shares"). The 234,609,500 Placement Shares represents approximately ten percent (10%) of the issued and paid-up share capital of the Company as at the LPD (before the full exercise of Warrants-B and ESOS Options as well as before all Treasury Shares are fully resold in the open market).

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 the prevailing market conditions and the provisions of Paragraph 6.04(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing Requirements"), 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 RM0.155 per Placement Share ("Indicative Issue Price"), this represents a discount of approximately 9.20% to the 5D-VWAMP up to 17 April 2019 of RM0.1707 per KNM Share. Based on the Indicative Issue Price, the Proposed Private Placement is expected to raise gross proceeds of up to approximately RM36.36 million. 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 will be placed to independent investor(s) ("Placee(s)") to be identified at a later date. In accordance with Paragraph 6.04(c) of the Listing Requirements, 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, the 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 on the Main Market of Bursa Securities.

2.5 Utilisation of proceeds

For illustrative purposes, assuming up to 234,609,500 Placement Shares are issued at the Indicative Issue Price, the Proposed Private Placement is expected to raise gross proceeds of RM36,364,473. The proceeds raised are expected to be utilised in the following manner:-

Details	Notes	RM'000	#Expected time frame
Purchase of raw materials and operating overheads for the operations of the Group's ethanol plant in Chachaengsao, Thailand ("Ethanol Plant")	(a)	10,000	Within 6 months
Capital expenditures for future expansion of production capacity of ethanol at the Ethanol Plant	(a)	10,000	Within 12 months

Payment for procurement of raw materials (steel products, piping, valves etc), equipment (pumps, vessels, machineries etc) and payment to sub-contractors for fabrication and site construction works, and other professional services.	(b)	15,364	Within 12 months
Estimated expenses	(c)	<u>1,000</u>	Within 1 month
Total		<u>36,364</u>	

Notes:-

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

(a) Impress Ethanol Co., Ltd ("IEL"), a 72% owned subsidiary of KNM currently owns and operates the Ethanol Plant located on a 171-acre (80 hectares) site at Chachoengsao province, 135km east of Bangkok, Thailand. The current production capacity for phase I of the Ethanol Plant is 200,000 litres per day which has commenced its commercial operation since end of September 2017. The proceeds raised from the Proposed Private Placement shall be utilised in the following manner:

<u>Details</u>	<u>RM'000</u>	<u>RM'000</u>
Purchase of raw materials such as cassava chips, wood chips and chemicals	7,000	
Operating expenses (such as staff salaries, rental expenses and administrative expenses)	3,000	
	<hr/>	10,000
Future expansion of existing production capacity of ethanol at the Ethanol Plant comprises of the purchase of process equipment such as jet cooker, distillation system, tanks, equipment control systems etc and sub-contractor works which will result in increase in production capacity of ethanol from 200,000 litres per day to 500,000 litres per day.		10,000
Total		<u>20,000</u>

(b) The amount of RM15.36 million has been earmarked to finance the project and operating expenses including (i) procurement of raw materials (steel products, piping, valves etc) and equipment (pumps, vessels, machineries etc); (ii) payment to sub-contractors for fabrication and site construction works ; (iii) other professional services, for the ongoing projects; and (v) other day-to-day operating expense.

(c) The estimated expenses consist of fees payable to the relevant authority, advisory and placement fees and other miscellaneous expenses. Any surplus or shortfall in the actual amount of expenses will be adjusted to/from the amount allocated for working capital purposes.

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 Group to raise the necessary funding for the 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 issued share capital of KNM are as follows:

	No. of KNM Shares '000	RM'000
Share capital as at LPD	2,346,096	1,883,498
To be issued pursuant to the Proposed Private Placement	234,610	⁽ⁱ⁾ 36,364
Issued and paid-up share capital	2,580,706	1,919,862
Assuming the full exercise of the following:-		
- Warrants-B	161,579	⁽ⁱⁱ⁾ 161,579
- ESOS Options	91,171	⁽ⁱⁱⁱ⁾ 59,261
	2,833,456	2,140,702

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 91,170,660 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.

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 of the Group based on the latest audited consolidated financial statement of financial position of the Group as at 31 December 2017 and assuming the Indicative Issue Price, are as follows:

	Audited as at 31 December 2017	After Proposed Private Placement	Assuming full exercise of Warrants-B and outstanding ESOS Options
	RM'000	RM'000	RM'000
Share capital	1,883,513	⁽ⁱ⁾ 1,919,862	^(iv) 2,187,062
Treasury shares	(53,425)	(53,425)	(53,425)
Revaluation reserves	93,301	93,301	93,301
Translation reserves	(209,343)	(209,343)	(209,343)
ESOS reserve	18,365	⁽ⁱⁱ⁾ 18,892	-
Hedging reserves	(1,902)	(1,902)	(1,902)
Warrant reserve	27,468	27,468	-
Retained earnings	638,245	⁽ⁱⁱⁱ⁾ 636,718	636,718
Total equity attributable to owners of the Company/NA	2,396,222	2,431,571	2,652,411
Non-controlling interest	13,514	13,514	13,514
Total equity	2,409,736	2,445,085	2,665,925
No. of Shares (^000)	2,346,096	2,580,706	2,833,456
NA per ordinary share (RM)	1.02	0.94	0.94
Borrowings (interest-bearing) (RM'000)	1,188,966	1,188,966	1,188,966
Gearing ratio (times)	0.49	0.49	0.45

Notes:-

- (i) Based on the Indicative Issue Price.
- (ii) Based on the ESOS reserve of the Group as at LPD.
- (iii) After adjusting for the estimated expenses relating to the Proposed Private Placement of approximately RM1.00 million
- (iv) After adjusting for the following:
 - (a) All the 161,578,504 outstanding Warrants are exercised at the exercise price of RM1.00 per Warrant-B (amounting to RM161.58 million) and reversal of warrant reserve of RM27.47 million to share capital pursuant to the full exercise of the outstanding Warrants; and
 - (b) All the 91,170,660 outstanding ESOS Options are fully granted and exercised at the exercise price of RM0.65 per ESOS Option (amounting to RM59.26 million) and reversal of share option reserve amounting to RM18.89 million to share capital pursuant to the full exercise of the outstanding ESOS Options.

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 capital expenditure 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 2019 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) 161,578,504 Warrants-B; and
- (b) 91,170,660 ESOS Options.

The Proposed Private Placement will not give rise to any adjustment to the exercise price and/or number of outstanding Warrants-B and outstanding ESOS Options pursuant to the provisions of the deed polls constituting 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' shareholding

The pro forma effects of the Proposed Private Placement on the shareholding of the substantial shareholders of KNM based on the Company's Register of Substantial Shareholders 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	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Inter Merger Sdn Bhd	192,855,551	8.2	⁽ⁱ⁾ 22,413,794	1.0	192,855,551	7.5	⁽ⁱ⁾ 22,413,794	0.9
Ir Lee Swee Eng	37,408,838	1.6	⁽ⁱⁱ⁾ 288,111,153	12.3	37,408,838	1.4	⁽ⁱⁱ⁾ 288,111,153	11.2
Gan Siew Liat	9,045,000	0.4	⁽ⁱⁱⁱ⁾ 288,111,153	12.3	9,045,000	0.3	⁽ⁱⁱⁱ⁾ 288,111,153	11.2
Placees (collectively)	-	-	-	-	234,609,500	9.1	-	-

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

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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 its AGM convened on 27 June 2018 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 Act. 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 major shareholders of KNM and/or persons 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 of this announcement 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 TIMEFRAME FOR COMPLETION

Barring unforeseen circumstances, the application to Bursa Securities in relation to the Proposed Private Placement is expected to be made within 2 months from the date of this announcement. The Proposed Private Placement is expected to be completed by the second quarter of 2019.

This announcement is dated 18 April 2019.