

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

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

KNM Group Berhad (“KNM”) is pleased to announce that its indirect wholly-owned subsidiaries, Borsig GmbH and Borsig ZM Compression GmbH (“BZM”) had on 27 August 2019 entered into a Sale and Purchase Agreement (“SPA”) with Borsig ZM Schweiz AG and Iskra-Neftegaz Compressor Limited Liability Company for the disposal of its entire equity interests comprising one (1) ordinary share of EUR24,000 and one (1) ordinary share of EUR1,000 held in BZM for a cash consideration of EUR28 million (equivalent to approximately RM130.76 million based on the exchange rate of EUR1.00 : RM4.67) (hereinafter referred to as the “Proposed Disposal”).

Further details on the Proposed Disposal are set out in the attachment below.

This announcement is dated 28 August 2019.

Please refer attachment below.

**Attachments**

[KNM Announcement dated 28 August 2019.pdf](#)

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## **KNM GROUP BERHAD**

### **PROPOSED DISPOSAL OF ENTIRE EQUITY INTEREST IN BORSIG ZM COMPRESSION GMBH BY BORSIG GMBH**

#### **1. INTRODUCTION**

KNM Group Berhad (“KNM”) is pleased to announce that its indirect wholly-owned subsidiaries, Borsig GmbH and Borsig ZM Compression GmbH (“BZM”) had on 27 August 2019 entered into a Sale and Purchase Agreement (“SPA”) with Borsig ZM Schweiz AG and Iskra-Neftegaz Compressor Limited Liability Company for the disposal of its entire equity interests comprising one (1) ordinary share of EUR24,000 and one (1) ordinary share of EUR1,000 held in BZM for a cash consideration of EUR28 million (equivalent to approximately RM130.76 million based on the exchange rate of EUR1.00 : RM4.67) (hereinafter referred to as the “Proposed Disposal”).

Upon completion of the Proposed Disposal, BZM will cease to be a subsidiary company of Borsig GmbH and an indirect wholly-owned subsidiary of KNM.

#### **2. DETAILS OF THE PROPOSED DISPOSAL**

##### **2.1 Information about the Parties**

###### Borsig GmbH (“BORSIG” / “Seller”)

Borsig GmbH, an indirect wholly-owned subsidiary of KNM, was incorporated in Berlin, Germany on 10 December 2002 with an issued and fully paid-up share capital of EUR100,000 divided into 100,000 ordinary shares of EUR1.00 each. It is principally engaged in the advisory and administration services as well as acquisition and disposal of holding shares in other companies on behalf and for its own account, in particular for and to companies of the BORSIG Group.

###### Borsig ZM Compression GmbH (“BZM”)

BZM, a wholly-owned subsidiary of Borsig GmbH and an indirect wholly-owned subsidiary of KNM, was incorporated in Berlin, Germany on 16 August 2004 with an issued and fully paid-up share capital of EUR25,000 divided into one (1) ordinary share of EUR24,000 and one (1) share of EUR1,000. It is principally engaged in provision of engineering, fabrication and sale of reciprocating compressors and centrifugal compressors that are typically used in refineries, the chemical and petrochemical industries, for natural gas storage, technical gas transportation, power supply and power plants.

###### Borsig ZM Schweiz AG (“Purchaser”)

Borsig ZM Schweiz AG was incorporated in Zug, Switzerland on the 6 June 2019 and was registered with the competent commercial register on the 17 June 2019 with a share capital of Swiss Franc 300,000. It is principally involved in the acquisition, holding, administration and sale of shareholding in companies of any kinds in Switzerland and abroad.

###### Iskra-Neftegaz Compressor Limited Liability Company (“Guarantor”)

Iskra-Neftegaz Compressor Limited Liability Company was incorporated in Moscow, Russia on 2 July 2010 with an authorised share capital of Russian Ruble 10,000. It is principally involved in wholesale trading in machines, equipment and accessories.

## 2.2 Salient features of the SPA

The salient terms of the executed and notarised SPA are as follows:

### Purchase Price

The purchase price is EUR28.00 million ("Purchase Price"). The Purchase Price might be adjusted for any variance in the net asset value of BZM between the date of signing of the SPA and the Closing Date (as defined below).

### Payment Schedule

- 10% of the Purchase Price amounting to EUR2.80 million ("Down Payment") to be paid in two equal instalments of EUR1.40 million each within 2 weeks and 4 weeks respectively from the signing date of the SPA ("Signing Date"). The Down Payment shall be deposited into an escrow account and release to the Seller on the completion date of the Proposed Disposal of BZM; and
- The balance of 90% of the Purchase Price shall be payable upon closing, after the condition precedents are all fulfilled and/or waived by 2 December 2019 ("Closing Date"); or not later than the long stop date of closing on 11 December 2019.

The performance and payment obligations of the Purchaser are guaranteed by Guarantor.

### Non-competition

Seller agrees that for a period of five years from the Signing Date, it nor any companies controlled by Seller shall in the geographic areas in which BZM engages in business on the Signing Date or on the Closing Date, engage or invest into in any activity / business which would compete either directly or indirectly with BZM as currently conducted as of the Signing Date and the Closing Date.

### Shareholder's Loan to BZM

Seller shall write-off any existing outstanding shareholder's loan provided by the Seller to BZM.

### Name and Trademarks

For a time period of ten (10) years after the Closing Date, the Seller grants a non-transferable and non-sub-licensable right to BZM and the Purchaser to continue bearing the company name "Borsig ZM Compression GmbH" and use certain tradenames such as "BORSIG ZM" based on terms and conditions as stipulated in the SPA.

### Applicable Laws

The SPA shall be governed by the laws of the Federal Republic of Germany, excluding conflict of law rules and the United Nations convention on contract for the international sale of goods (CISG).

### 2.3 Utilisation of the Purchase Price proceeds

The Purchase Price proceeds will be used as follows:-

Utilisation of Proceeds	EUR' million	Expected Utilisation Date
Repayment of shareholder's loan to KNM	27.50	Immediate
To defray expenses incidental to the Proposed Disposal such as fees payable to advisors, solicitor and stamp duties, etc.*	0.50	Immediate
<b>Total Purchase Price Proceeds</b>	<b>28.00</b>	

\* Note: Any surplus or shortfall in the actual amount of expenses will be adjusted to/from the amount allocated for working capital purposes.

### 2.4 Liabilities to be assumed and guarantee to be given by Seller

BORSIG and its affiliates within the BORSIG Group ("BORSIG Group") have earlier provided corporate guarantees to BZM's customers and suppliers in connection with BZM's ordinary course of business ("Corporate Guarantees"). The Purchaser agrees to assume the liabilities under the Corporate Guarantees.

### 2.5 Net profit attributable to the BZM and net assets of BZM

BZM did not contribute any net profit to KNM Group's consolidated earnings as it was making losses for the financial year ended 31 December 2018.

The net asset value of BZM as at 31 December 2018 was EUR1.40 million (equivalent to approximately RM6.54 million based on the exchange rate of EUR1.00 : RM4.67), which represents approximately 0.42% and 0.56% of the consolidated net asset value of KNM and BORSIG Group respectively.

### 2.6 The original cost of investment and date of investment

The original cost of investment is EUR100,000 which was invested on 1 December 2004.

## 3. JUSTIFICATION OF ARRIVING AT THE PURCHASE PRICE

The Purchase Price was arrived by mutual agreement between the Seller and Purchaser, at arms-length, on a "willing-buyer willing-seller" basis and after 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 trademarks for a period of ten (10) years.

#### **4. RATIONALE FOR THE PROPOSED DISPOSAL OF BZM**

The Proposed Disposal is undertaken in consideration of BORSIG's overall product and business rebalancing strategy and to invest into future growth opportunities of BORSIG's existing businesses. Despite the current challenging compressor equipment market, BORSIG still believes that there is a long-term potential upside in the compressor equipment market once the current global trade disruptions start to normalise in the medium term. However, BORSIG has to prioritise its management and financial resources to meet the demand of its existing rapidly growing businesses, particularly in high-end process heat exchanger and membrane businesses. In addition, BORSIG believes that the Purchaser will be able to further develop the business of BZM, especially enabling access to wider markets such as in Russia and the Commonwealth of Independent States.

As such, it is best to proceed with the Proposed Disposal and utilise the proceeds to strengthen the balance sheet towards developing BORSIG's and KNM's businesses as well as to enhance the earnings and profitability of BORSIG and KNM generally as a whole.

#### **5. FINANCIAL EFFECTS**

##### **5.1 Gain in the Proposed Disposal**

The Proposed Disposal will result in an estimated gain of approximately EUR4.01 million (equivalent to approximately RM18.73 million based on the exchange rate of EUR1.00 : RM4.67) to KNM based on the consolidated audited statement of financial position as at 31 December 2018.

##### **5.2 Share capital and shareholdings of substantial shareholders**

The Proposed Disposal of BZM will not have any effect on the issued and paid-up share capital and substantial shareholders' shareholdings of KNM as there will be neither offer nor issue of securities by KNM in relation to the Proposed Disposal of BZM.

##### **5.3 Earning and Earning Per Share ("EPS")**

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

##### **5.4 Net Assets Per Share and Gearing**

The Proposed Disposal of BZM is not expected to have any material impact on the net asset per share of KNM for the financial year ending 31 December 2019.

The net gearing of KNM will reduce from 0.69 times to 0.61 times based on the latest audited consolidated statement of financial position as at 31 December 2018, assuming the Proposed Disposal had been effected at the end of financial year ended 31 December 2019.

## **6. RISK FACTORS**

The Proposed Disposal is subject to the execution and successful completion of the SPA. There can be no assurance that the SPA will ultimately be completed within the timeframe set out therein. Any non-fulfilment of the relevant terms and conditions as stipulated in the SPA, prolonged delay or non-completion of the SPA will lead to the termination of the SPA. BORSIG will take reasonable steps to ensure that its obligations under the SPA are fulfilled in a timely manner.

## **7. APPROVALS REQUIRED**

The Proposed Disposal of BZM is not subject to the approvals from KNM's shareholders or any regulatory authority in Malaysia or in any other country.

## **8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST**

None of the directors and/or major shareholders of KNM, and/or any persons connected with them, have any direct or indirect interest in the Proposed Disposal of BZM.

## **9. DIRECTORS' STATEMENT**

Having considered all aspects of the Proposed Disposal of BZM, the Board of Directors is of the opinion that the Proposed Disposal of BZM is in the best interest of KNM.

## **10. ESTIMATED TIME FRAME FOR THE COMPLETION OF THE PROPOSED DISPOSAL OF BZM**

Barring any unforeseen circumstances, the Proposed Disposal of BZM is expected to be completed by fourth quarter of year 2019.

## **11. DOCUMENTS FOR INSPECTION**

Details of the Proposed Disposal of BZM 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 28 August 2019.