

NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) : FUND RAISING KNM GROUP BERHAD ("KNM" OR THE "COMPANY") PROPOSED PRIVATE PLACEMENT OF UP TO 30% OF THE ISSUED ORDINARY 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 30% OF THE ISSUED ORDINARY 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 undertake a private placement of up to 30% of the issued ordinary shares in KNM ("Proposed Private Placement").

Kindly refer to the attachment for further details on the Proposed Private Placement.

This announcement is dated 24 May 2021.

Please refer attachment below.

Attachments

[KNM PP announcement.pdf](#)

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

PROPOSED PRIVATE PLACEMENT OF UP TO 30% 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 987,517,700 new ordinary shares in KNM ("**KNM Shares**" or "**Shares**"), representing not more than 30% of the issued ordinary shares in KNM ("**Proposed Private Placement**").

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

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

As at 21 May 2021, being the last practicable date preceding the date of this announcement ("**LPD**"), KNM has:

- (a) an issued share capital of RM2,011,106,883 comprising 3,291,725,680 KNM Shares (excluding 1,841,275 Shares held as treasury shares by the Company ("**Treasury Shares**")); and
- (b) 210,874,300 outstanding employees' share option scheme ("**ESOS Options**").

The Proposed Private Placement will entail the issuance of up to 987,517,700 new KNM Shares ("**Placement Shares**"), representing not more than 30% of the existing number of issued Shares as at LPD (before the exercise of ESOS Options and excluding Treasury Shares). For avoidance of doubt, any increase in the number of issued Shares arising from the resale of Treasury Shares or exercise of the ESOS Options will not affect the number of Placement Shares to be issued under the Proposed Private Placement.

Subject to the prevailing market conditions and depending on investors' interest at the point of implementation, the Proposed Private Placement may be implemented in a single or multiple tranche(s) within 6 months from the date of approval of Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the Proposed Private Placement or such other approved extended period.

2.1 Placement arrangement

The Placement Shares will be placed as follows:

- (a) up to 493,758,800 Placement Shares, representing 50% of the total Placement Shares will be placed to Gan Siew Liat, who is the Executive Vice Chairman and major shareholder of the Company, and/or persons connected with her ("**Interested Placee(s)**"); and
- (b) the balance Placement Shares will be placed to independent investor(s) ("**Independent Placee(s)**"), where the Independent Placee(s) shall be person(s) or party(ies) who/which qualify under Schedule 6 and Schedule 7 of the Capital Markets and Services Act 2007, who shall be identified at a later date.

Other than the proposed placement to the Interested Placee(s), 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.

In the event all or part of the 493,758,800 Placement Shares are not placed to the Interested Placee(s), such number of Placement Shares shall be placed out to Independent Placee(s) to be identified at a later date.

2.2 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 provisions of Paragraph 6.04(a) of the Main Market Listing Requirements ("**MMLR**"), in determining the issue price of the Placement Shares.

The issue price of the Placement Shares to the Interested Placee(s) shall be based on the volume weighted average market price of KNM Shares for the 5 market days ("**5D-VWAMP**") immediately preceding the price fixing date(s), rounded up to the nearest sen. The issue price of the Placement Shares to the Independent Placees shall be at a discount of not more than 10% to the 5D-VWAMP of KNM Shares immediately preceding the price fixing date(s).

For illustrative purposes, based on the 5D-VWAMP of KNM Shares up to and including LPD of RM0.1763 per KNM Share:

- (a) the issue price of the Placement Shares to the Interested Placee shall be RM0.18 each; and
- (b) the issue price of the Placement Shares to the Independent Placees shall be RM0.16 each, representing a discount of approximately 9.25% to the said 5D-VWAMP of KNM Shares.

Based on the above, the Proposed Private Placement will raise gross proceeds of approximately RM167.9 million.

The issue price of each tranche of the Placement Shares shall be determined separately in accordance with market-based principles and the above parameters.

2.3 Ranking of the Placement Shares

The Placement Shares shall, upon issuance and allotment, rank equally in all respects with the then existing issued KNM Shares, save and except that 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 is prior to the date of issuance and allotment 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.

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2.5 Utilisation of proceeds

For illustrative purposes, the placement proceeds to be raised from the Proposed Private Placement of approximately RM167.9 million will be utilised by KNM and its subsidiaries ("**KNM Group**" or "**Group**") for the following:

Details	Notes	Amount RM'000	# Expected timeframe for utilisation of proceeds
Working capital	(a)	44,078	Within 6 months
Repayment of bank borrowings	(b)	120,000	Within 6 months
Estimated expenses for the Proposed Private Placement	(c)	3,800	Within 1 month
Total		167,878	

Notes:

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

- (a) During the 12 months preceding the date of this announcement, the Company has issued a total of 566,108,200 new KNM Shares in accordance with a general mandate obtained under Sections 75 and 76 of the Companies Act 2016 which was approved by the shareholders of KNM at its 18th Annual General Meeting held on 13 August 2020 which authorises the Board to issue new KNM Shares not exceeding 20% of the then total number of issued shares of the Company ("**20% General Mandate**") ("**Previous Private Placement**"). A total of approximately RM96.5 million was raised from the Previous Private Placement, which was mainly used for the Group's fabrication works of process equipment contracts being works undertaken in Malaysia for global projects. Further details of the Previous Private Placement including the intended utilisation of proceeds and status of such utilisation are set out in Section 4 of this announcement.

The Group plans to utilise the proceeds from the Proposed Private Placement to support its working capital for its ongoing fabrication works of process equipment contracts which are expected to grow with the expected industrial boom after the global roll out of the COVID-19 vaccination, the breakdown of which has not been determined at this juncture and will be dependent on the operating and funding requirements of each contracts at the time of utilisation. Nevertheless, on best estimate basis, the percentage of the allocation of the proceeds to be utilised for each component of the working capital are as follows, subject to the operating and funding requirements of the Group at the time of utilisation:

No.	Details	Estimated allocation
(i)	Purchase of raw materials and consumables such as steel plates used to fabricate the pressure vessels, fitting, forgings, electrodes for welding, sand blasting materials, industrial gas and related components for its fabrication works, and applicable import duties	60%
(ii)	Payment to subcontractors and other suppliers engaged by KNM Group for performing fabrication and site works as well as related services in the process equipment contracts secured, such as project management fees, product certification fees, engineering design cost, non-destructive testing and other related services	30%
(iii)	Payment of logistical expenses for shipping of raw materials and delivery of process equipment which includes port clearance charges, forwarding and shipping fees, transportation cost and other related costs	10%
		100%

- (b) The Company intends to utilise up to RM120.0 million of the proceeds to repay its bank borrowings. As at 31 December 2020, the Company has total bank borrowings of RM1.36 billion, which comprise mainly bank overdrafts, bankers acceptances, bill payables, revolving credit, term loans and hire purchase. Based on an average annual interest rate of 4.5%, the said repayment of bank borrowings is expected to result in annual gross interest savings of approximately RM5.4 million. However, the repayment priority of the bank borrowings has not been determined at this juncture and will depend on the relative cost of borrowing of the facilities at the time of utilisation.
- (c) The estimated expenses comprise fees payable to the relevant authorities, advisory and placement fees as well as other miscellaneous expenses to be incurred for the Proposed Private Placement. Any excess or deficit in the amount allocated for estimated expenses will be adjusted against the utilisation for the Group's working capital.

The actual proceeds to be raised from the Proposed Private Placement will be dependent on the issue price of the Placement Shares and actual number of Placement Shares issued. Any variation of the actual proceeds raised will be adjusted against the utilisation for the Group's working capital.

Pending full utilisation of the proceeds, the Company will place such proceeds (including accrued interest, if any) or the balance thereof in interest-bearing deposit accounts with licensed financial institutions or in short-term money market instruments. Interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used for the Group's working capital.

3. RATIONALE

The Proposed Private Placement will enable the Group to raise additional funds as set out in Section 2.5 above. Notwithstanding the funds raised in the Previous Private Placement, all of which have been fully utilised, the Board expects an increase in working capital requirements, leading to the need to raise additional funds. The utilisation of these proceeds towards the additional working capital is expected to be earnings accretive and support the future growth of the Group amidst the current pandemic situation. Further, the intended repayment of bank borrowings will also enable the Group to enjoy interest savings. Additionally, the investment by the Interested Placee(s) reflects the commitment of the major shareholder towards strengthening the Group's financial position.

After due consideration of the various options available, the Board is of the view that the Proposed Private Placement is the most appropriate avenue to raise funds for the Group due to the following reasons:

- (a) the Proposed Private Placement will provide the Group with an immediate funding solution to meet its financial needs for the next 12 months as opposed to other fund raising options as well as to reduce the Group's overall bank borrowings;
- (b) the Proposed Private Placement is expected to strengthen the shareholders and capital base of the Group;
- (c) the Proposed Private Placement will serve as additional source of funding for the Group without incurring interest expenses as compared to borrowings; and
- (d) the Proposed Private Placement will improve the liquidity and financial flexibility of the Group by strengthening its financial position.

In relation to the placement of KNM Shares to the Interested Placee(s), Gan Siew Liat is an existing major shareholder of the Company with total direct and indirect interest of 9.7% as at LPD. Gan Siew Liat desires to increase her equity participation in the Company and her financial support to the Group demonstrates her confidence in the Group and its growth potential.

4. PREVIOUS FUND-RAISING EXERCISES UNDERTAKEN

Save as disclosed below, the Board confirms that the Company has not implemented any other fund raising exercise within the 12 months preceding the date of this announcement.

4.1 Previous Private Placement

- (a) On 29 September 2020, the Company announced a private placement of up to 269,184,800 KNM Shares representing not more than 10% of the then issued ordinary shares in KNM, to be undertaken via the 20% General Mandate ("**Previous Private Placement I**"). On 20 November 2020, the Previous Private Placement I was completed with the issuance of 269,184,800 Placement Shares raising approximately RM44.5 million. As at LPD, the said proceeds have been utilised as follows:

Proposed utilisation of proceeds	Expected timeframe for utilisation	Proposed utilisation (based on actual amount raised) RM'000	Actual utilisation up to LPD RM'000	Balance to be utilised RM'000
Payment for procurement of raw materials and consumables, payment to sub-contractor/suppliers for fabrication and site works, professional services and logistic expenses	Within 6 months	43,369	43,369	-
Expenses for the Previous Private Placement I	Within 1 month	1,180	1,180	-
		44,549	44,549	-

- (b) On 15 January 2021, the Company further announced a private placement of up to 296,923,400 KNM Shares representing not more than 10% of the then issued ordinary shares in KNM, to be undertaken via the 20% General Mandate ("**Previous Private Placement II**"). On 3 February 2021, the Previous Private Placement II was completed with the issuance of 296,923,400 KNM Shares raising approximately RM52.0 million. As at LPD, the said proceeds have been utilised as follows:

Proposed utilisation of proceeds	Expected timeframe for utilisation	Proposed utilisation (based on actual amount raised) RM'000	Actual utilisation up to LPD RM'000	Balance to be utilised RM'000
Payment for procurement of raw materials and consumables, payment to sub-contractor/suppliers for fabrication and site works, professional services and logistic expenses	Within 6 months	30,662	30,662	-
Repayment of bank borrowings	Within 3 months	20,000	20,000	-
Expenses for the Previous Private Placement I	Within 1 month	1,300	1,300	-
		51,962	51,962	-

4.2 Exercise of ESOS Options

The Company has raised a total amount of approximately RM10.6 million from the exercise of 96,044,200 ESOS Options into 96,044,200 KNM Shares from 1 January 2020 up to LPD. The proceeds from the exercise of the ESOS Options were used for the Group's working capital.

5. OUTLOOK AND PROSPECTS

5.1 Outlook and overview of Malaysia economy

The Malaysian economy recorded a negative growth of 3.4% in the fourth quarter (3Q 2020: -2.6%), largely attributable to the imposition of the Conditional Movement Control Order (CMCO) on a number of states since mid-October. The restrictions on mobility, especially on inter-district and inter-state travel, weighed on economic activity. Nevertheless, the continued improvement in external demand provided support to growth. Consequently, except for manufacturing, all economic sectors continued to record negative growth. On the expenditure side, moderating private consumption and public investment activities weighed on domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a decline of 0.3% (3Q 2020: +18.2%). In terms of sectoral performance, all economic sectors, except manufacturing, registered negative growth in the fourth quarter. For 2021, while near-term growth will be affected by the re-introduction of stricter containment measures, the impact, however, will be less severe than that experienced in 2020. The growth trajectory is projected to improve from the second quarter onwards. The improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures including PENJANA, KITA PRIHATIN, 2021 Budget and PERMAI, and higher production from existing and new facilities in the manufacturing and mining sectors. The vaccine rollout from February 2021 onwards is also expected to lift sentiments.

(Source: Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia)

Reinforced by the reopening of the economy in phases, growth is expected to improve gradually during the second half of the year, cushioning the significant contraction in the first half. Thus, Malaysia's gross domestic product ("GDP") is expected to contract by 4.5% in 2020 (2019: expanded by 4.3%), before rebounding between 6.5% and 7.5% in 2021.

(Source: Economic Outlook 2021, Ministry of Finance Malaysia)

5.2 Outlook and prospect of the oil and gas industry in Malaysia

COVID-19 has resulted in far-reaching consequences for most sectors of businesses, including the energy sector, societies, economies and governments.

The COVID-19 pandemic and the collapse in oil prices have hastened the transition towards a low-carbon economy, spurring policy intervention and global collaboration across industries. Investments in clean energy are estimated to have increased by 5 per cent in the first half of 2020 as opposed to 2019. This is further supported by the rapidly falling costs of renewable energy, which is now half of the cost of coal-fired generation, making it a favourable source of cleaner power.

Countries and companies are embedding the United Nations Sustainable Development Goals as part of their aspirations amid rising calls from stakeholders for actions to address climate change. More and more governments are translating these into national strategy, setting out visions of a carbon neutral future.

Banks and lenders have included elements of sustainability as part of their financing criteria, contributing to the establishment of an ecosystem that demands accountability in emissions. Without the accountability, companies stand to lose their social license to operate. Automotive manufacturers across the world are now increasingly widening their range of offerings of electric models that would change the shape and size of the global car fleet in the next decade. This is supported by falling cost of battery. Airlines are prioritising investment in more fuel-efficient aircraft and the development of sustainable aviation fuels. The leading players in the shipping industry have pledged to continuously reduce emissions to meet the more stringent regulations by International Maritime Organisation. The sector agreed to halve emissions by 2050.

(Source: Industry Overview, PETRONAS Activity Outlook 2021-2023)

Separately, the management has also observed the following indicators that the outlook for oil and gas industries will be recovering:

- (a) In respect of global outlook, the International Monetary Fund has revised its forecast that the global GDP would grow by +6% and +4.4% for year 2021 and 2022 respectively;
- (b) Crude oil price rose 39% in Q1 2021 as compared to the corresponding period last year *(Source: S&P Global)*;
- (c) Oil demand is expected to rise as much as 5.4 million barrels per day as forecasted by International Energy Agency ("**IEA**") in its May 2021 Monthly Oil Market Report. This upward revision is backed by improved economic outlook despite concerns on the strength of the recovery led by demand growth as there were surge in COVID-19 cases in countries such as Brazil and India despite vaccine roll-out in most countries *(Source: IEA)*;
- (d) In relation to global petrol chemicals market, it is expected to grow from USD365 billion in 2020 to USD429 billion in 2021 at a compound annual growth rate ("**CAGR**") of 17.6%. The market is expected to reach the size of USD478 billion in 2025 with CAGR of 3% *(Source: The Business Research Company 10 March 2021)*.

5.3 Prospects of the KNM Group

Based on the outlook of the economy, and the oil and gas industry set out above, our Group envisages its business and earning visibility to gradually recover from the slowdown caused by the global outbreak of COVID-19 and the implementation of the Movement Control Order in Malaysia.

On a positive note, the Group believes that COVID-19 and the fluctuations in oil prices in the last few years have accelerated long term trends with energy demands, transitioning to low carbon solutions and digital transformations. With the strategies already put in place by the management, the Group is ready to capitalise on these new business opportunities.

Notwithstanding the above, the Company remains cautious and aims to maintain its profitability during this challenging period, as the full impact of the COVID-19 pandemic gradually becomes observable. The Group was able to improved its gross profit margins from 18.0% in FYE 2019 to 19.8% for FYE 2020, improving its operational efficiency through process improvement and operational savings from a leaner outfit, and increased pre-tax profits from RM70.4 million to RM84.3 million as a result of lower borrowing costs.

5.4 The adequacy of the Proposed Private Placement in addressing the Group's financial requirements and steps taken by the Group to improve its financial condition

Premised on the utilisation of proceeds as set out in Section 2.5 above as well as the effects of the Proposed Private Placement as set out below, the Board is of the view that the Proposed Private Placement is adequate in addressing the Group's financial requirements at this juncture.

The Proposed Private Placement is the most appropriate avenue, in line with the Group's strategy to focus on operational savings, to raise funds for the Group's ongoing fabrication and site works. These works relate to the Group's process equipment contracts secured by the Group's Malaysian operations. Additionally, the funds will be used to repay the Group's bank borrowings to reduce gearing. This has resulted in improved profits for FYE 2020, as set out in Section 5.3.

Moving forward, the Group intends to focus on its strength and expertise, and expects to continue securing new business opportunities in the oil and gas and petrochemicals industries. Combined with the optimistic industry outlook, the Board expects this to deliver sustainable value to its shareholders.

In addition, the Group shall continue to explore new potential business opportunities or venture, particularly in the renewable energy sector, which provides recurring income in line with the Group's long term business strategies. This is expected to supplement its existing business activities in the oil and gas and petrochemical industries. To this end, the Group plans to work with various joint venture partners, various oil and gas players and project owners regionally to secure contracts in the oil and gas and petrochemicals industries.

5.5 Impact of the Proposed Private Placement and value creation to the Group and its securities holders

The Proposed Private Placement will enable the Group to raise funds without incurring additional interest expense, thereby minimising any potential cash outflow in respect of interest servicing costs and preserving the Group's cash flows. As set out in Section 2.5, the proceeds will be primarily used to repay the Group's bank borrowings and supplement an expected increase in working capital.

As illustrated in Section 6.1 of this announcement, the Proposed Private Placement is expected to enlarge the issued share capital of the Group and in turn increase its shareholder's equity and enhance its overall financial position. Based on the audited consolidated financial statements of KNM for the financial year ended ("FYE") 2019 and the indicative issue prices set out in Section 2.2, the net assets ("NA") position of RM1.8 billion and gearing level of 0.83 times is expected to improve to RM1.9 billion and 0.70 times, respectively, upon completion of the Proposed Private Placement.

Notwithstanding the above, the consolidated earnings per Share ("EPS") of the Group shall be diluted as a result of the increase in the number of Shares arising from the Proposed Private Placement. Further details on the effects of the Proposed Private Placement on the NA and gearing as well as the earnings and EPS of the Group are set out in Section 6.3 of this announcement.

Despite the expected dilution in the consolidated EPS of the Group, the Proposed Private Placement is expected to generate the benefits as set out in Sections 2.5 and 3 of this announcement. This will aid the Company in its effort to continuously improve its financial performance and to enhance value for the shareholders moving forward.

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6. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

6.1 Share capital

The pro forma effects of the Proposed Private Placement on the issued share capital of the Company are set out below:

	No. of KNM Shares	RM'000
	'000	RM'000
Issued share capital as at LPD (excluding 1,841,275 Treasury Shares)	3,291,726	2,011,107
Placement Shares to be issued pursuant to the Proposed Private Placement	987,518	⁽¹⁾ 167,878
Enlarged issued and paid-up share capital	4,279,244	2,178,985

Note:

⁽¹⁾ Based on the indicative issue prices as set out in Section 2.2.

6.2 Net asset ("NA") and gearing

The pro forma effects of the Proposed Private Placement on the NA and gearing of the Company is set out below:

	Audited as at	⁽¹⁾Subsequent	⁽²⁾After Proposed
	31 December	events	Private Placement
	2019	RM'000	RM'000
	RM'000	RM'000	RM'000
Share capital	1,924,046	2,011,107	2,178,985
Treasury shares	(53,425)	(4,214)	(4,214)
Reserves	(206,552)	(234,067)	⁽³⁾ (237,867)
Shareholders equity/NA	1,664,069	1,772,826	1,936,904
Non-controlling interest	(14,215)	(14,215)	(14,215)
Total equity	1,649,854	1,758,611	1,922,689
No. of Shares ('000) (excluding 1,841,275 Treasury Shares)	2,608,073	3,291,726	4,279,244
NA per share (RM) ⁽⁴⁾	0.64	0.54	0.45
Total borrowings (RM'000)	1,467,611	1,467,611	1,347,611
Gearing (times) ⁽⁵⁾	0.89	0.83	0.70

Notes:

⁽¹⁾ After adjusting the following subsequent events since 31 December 2019 up to LPD:

- (a) KNM re-purchased 6,500,000 KNM Shares from the open market on 9 March 2020 at a cost of RM978,315 or RM0.1505 each. These Shares have been treated as Treasury Shares;
- (b) Issuance of 96,044,200 new KNM Shares from the exercise of ESOS Options since 1 January 2020 up to LPD;
- (c) Reversal of warrants reserve for outstanding warrants-B, which expired on 21 April 2020, amounted to approximately RM27.49 million;
- (d) Cancellation of 146,717,001 ESOS Options on 24 September 2020 as the KNM Shares have predominantly been trading below the exercise price of RM0.65 per ESOS Option;
- (e) Issuance of 269,184,800 and 296,923,400 new Shares pursuant to the Previous Private Placement I and Previous Private Placement II respectively;

- (f) After adjusting for the total expenses incurred for the Previous Private Placement of approximately RM2.69 million as share-based expenses on the Group's issued share capital;
 - (g) Disposal of 6,500,000 Treasury Shares on 29 December 2020 for a total disposal consideration of RM1,327,862.90, resulting in a one-off gain on disposal of RM349,548, credited into the share capital of KNM;
 - (h) Disposal of 9,000,000 Treasury Shares on 2 April 2021 for a total disposal consideration of RM1,755,000, resulting in a one-off loss on disposal of RM18,844,774, debited into the share capital of KNM; and
 - (i) Disposal of 12,500,000 Treasury Shares on 23 April 2021 for a total disposal consideration of RM2,312,500, resulting in a one-off loss on disposal of RM26,298,298, debited into the share capital of KNM.
- (2) Based on the indicative issue prices as set out in Section 2.2.
- (3) After adjusting for the estimated expenses of the Proposed Private Placement of approximately RM3.8 million.
- (4) Computed based on total NA divided by the number of Shares in issue.
- (5) Computed based on total borrowings over total equity.

6.3 Earnings and EPS

The Proposed Private Placement is expected to contribute positively to the earnings of the Group for the future years as and when the benefit of the utilisation of proceeds are realised. Notwithstanding the above, the EPS of the Group may however be proportionately diluted as a result of the increase in the number of Shares after the Proposed Private Placement.

For illustrative purposes, assuming that the Proposed Private Placement was completed at the beginning of the FYE 31 December 2019 of, the pro forma effects on the earnings and EPS of KNM Group are as follows:

	FYE 31 December 2019	After subsequent events and Proposed Private Placement
Profit after taxation (RM'000)	35,057	⁽¹⁾ 36,657
No. of Shares ('000) (excluding 1,841,275 Treasury Shares)	2,608,073	⁽²⁾ 4,279,244
EPS (sen)	1.34	0.85

Notes:

- (1) After deducting the estimated expenses of the Proposed Private Placement of RM3.8 million and the estimated annual gross interest savings of RM5.4 million per annum from the repayment of bank borrowings of RM120.0 million as set out in Section 2.5.
- (2) After adjusting for the Proposed Private Placement and the following subsequent events since 31 December 2019 up to LPD:
- (a) KNM re-purchased 6,500,000 KNM Shares from the open market on 9 March 2020 at a cost of RM978,315 or RM0.1505 each. These Shares have been treated as Treasury Shares;
 - (b) Issuance of 96,044,200 new KNM Shares from the exercise of ESOS Options since 1 January 2020 up to LPD;
 - (c) Issuance of 269,184,800 and 296,923,400 new Shares pursuant to the Previous Private Placement I and Previous Private Placement II respectively; and
 - (d) Disposal of 6,500,000 Treasury Shares on 29 December 2020, 9,000,000 Treasury Shares on 2 April 2021 and 12,500,000 Treasury Shares on 23 April 2021.

6.4 Substantial shareholders' shareholding

The pro forma effects of the Proposed Private Placement on the shareholdings of the substantial shareholders of KNM are set out in the table below:

Substantial shareholders	As at LPD			
	Direct		Indirect	
	No. of Shares	⁽¹⁾ %	No. of Shares	⁽¹⁾ %
Ir Lee Swee Eng	109,608,838	3.3	169,866,459	⁽³⁾ 5.2
Gan Siew Liat	39,045,000	1.2	279,475,297	⁽⁴⁾ 8.5
Independent Placees (collectively)	-	-	-	-
Substantial shareholders	After Proposed Private Placement			
	Direct		Indirect	
	No. of Shares	⁽²⁾ %	No. of Shares	⁽²⁾ %
Ir Lee Swee Eng	109,608,838	2.6	169,866,459	⁽³⁾ 4.0
Gan Siew Liat	⁽⁵⁾ 532,803,800	12.5	279,475,297	⁽⁴⁾ 6.5
Independent Placees (collectively)	493,758,900	11.5	-	-

Notes:

- (1) Based on the existing share capital of 3,291,725,680 Shares (excluding Treasury Shares) as at LPD.
- (2) Based on the enlarged share capital of 4,279,243,380 Shares after the Proposed Private Placement.
- (3) Deemed interested by virtue of his indirect interest in Inter Merger, direct interest in Tegas Klasik Sdn Bhd, direct interest in Aveda Assets Capital Inc. and interest of his children in KNM.
- (4) Deemed interested by virtue of her indirect interest in Inter Merger, and interest of her spouse in Tegas Klasik Sdn Bhd and Aveda Assets Capital Inc. and interest of her spouse and children in KNM.
- (5) Assuming that Gan Siew Liat will subscribe for 50% of the Placement Shares to be issued under the Proposed Private Placement.

6.5 Convertible securities

As at LPD, save for 210,874,300 outstanding ESOS Options, the Company does not have any outstanding convertible securities.

The Proposed Private Placement will not give rise to any adjustment to the outstanding ESOS Options pursuant to the provisions of the by-laws governing the Company's ESOS Options.

6.6 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 depend on, among others, the future financial performance as well as cash position of the Group, after taking into consideration its working capital requirements, capital expenditures needed for future growth and business expansion.

7. 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 on the Main Market of Bursa Securities;
- (b) shareholders of KNM at an extraordinary general meeting ("**EGM**") to be convened; and
- (c) any other relevant persons or authorities, if required.

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

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

Save as disclosed below, none of the Directors, major shareholders and/or persons connected to them have any interest, either direct or indirect, in the Proposed Private Placement:

- (a) Gan Siew Liat is the Interested Placee. She is Executive Vice Chairman of the Company. She is also a major shareholder of the Company with direct and indirect interest;
- (b) Ir Lee Swee Eng is a person connected to Gan Siew Liat. He is a major shareholder of the Company with direct and indirect interest. Both Gan Siew Liat and Ir Lee Swee Eng are spouses.
- (c) Inter Merger is a person connected to Gan Siew Liat and Ir Lee Swee Eng, both of whom are its Director and major shareholder.
- (d) Tegas Klasik Sdn Bhd and Aveda Assets Capital Inc. are persons connected to Ir Lee Swee Eng, who is their Director and major shareholder. Due to this relationship, they are also persons connected to Gan Siew Liat as she is Ir Lee Swee Eng's spouse.
- (e) Sara Lee Mei Ching and Sarita Lee Mei Ling are children of Gan Siew Liat and Ir Lee Swee Eng, and therefore are persons connected to her.
- (f) Chew Fook Sin and Gan Cheng Gey are husband and wife, and they are brother-in-law and sister to Gan Siew Liat, and therefore are persons connected to her.

Details of the shareholdings of Gan Siew Liat and Ir Lee Swee Eng (collectively referred to as "**Interested Persons**") in the Company are set out in Section 6.4.

Save for the above, none of the other Directors, major shareholders, chief executive of KNM and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Private Placement.

Gan Siew Liat has abstained and will continue to abstain from all deliberations and voting at the relevant Board meetings in respect of the Proposed Private Placement.

In addition, the Interested Persons will also abstain from voting in respect of their direct and/or indirect shareholdings in KNM, if any, on the resolution for the Proposed Private Placement to be tabled at the EGM to be convened.

The Interested Persons have also undertaken to ensure that persons connected to them shall abstain from voting in respect of their direct and/or indirect shareholdings in the Company, if any, on the resolution for the Proposed Private Placement to be tabled at the EGM to be convened.

9. DIRECTORS' RECOMMENDATION

The Board (save for Gan Siew Liat), after having considered all aspects of the Proposed Private Placement (including, but not limited to the proposed utilisation of proceeds, rationale and the effects of the Proposed Private Placement), is of the opinion that the Proposed Private Placement is in the best interest of the Group and its shareholders.

10. ADVISER AND PLACEMENT AGENT

M&A Securities has been appointed as Principal Adviser and Placement Agent to the Company for the Proposed Private Placement. Newfields Advisors Sdn Bhd has also been appointed as Financial Adviser to the Company for the Proposed Private Placement.

11. 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.

Subject to the relevant approvals being obtained and barring any unforeseen circumstances, the Proposed Private Placement is expected to be completed by the fourth quarter of 2021.

This announcement is dated 24 May 2021.

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