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 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 10% OF THE ISSUED ORDINARY SHARES IN KNM

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 334,132,800 new ordinary shares in KNM, representing not more than 10% of the issued ordinary shares in KNM (“**Proposed Private Placement**”).

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

This announcement is dated 22 November 2021.

Please refer attachment below.

Attachments

KNM - Private Placement (22112021).pdf
170.5 kB

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 334,132,800 new ordinary shares in KNM ("**KNM Shares**" or "**Shares**"), representing not more than 10% of the issued ordinary shares in KNM ("**Proposed Private Placement**").

The Proposed Private Placement shall be undertaken in accordance with the general mandate pursuant to Sections 75 and 76 of the Companies Act 2016 ("**Act**") approved by the shareholders of KNM at the Annual General Meeting ("**AGM**") of the Company held on 29 June 2021 which authorises the Board to issue new KNM Shares not exceeding 20% of the total number of issued shares of the Company ("**20% General Mandate**"). The Shareholders' Mandate may be utilised until 31 December 2021, after which the 10% limit under Paragraph 6.03(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**") will be reinstated.

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

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

As at 10 November 2021, being the last practicable date preceding the date of this announcement ("**LPD**"), KNM has:

(a) an issued share capital of RM2,017,255,731 comprising 3,341,328,680 KNM Shares (excluding 1,841,275 Shares held as treasury shares by the Company ("**Treasury Shares**")); and

(b) 149,633,300 outstanding employees' share option scheme ("**ESOS Options**").

The Proposed Private Placement will entail the issuance of up to 334,132,800 new KNM Shares ("**Placement Shares**"), representing not more than 10% 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.

The Proposed Private Placement may be implemented in multiple tranches, if required, by 31 December 2021 after the date of approval of Bursa Securities for the Proposed Private Placement.

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 ("**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 of KNM Shares for the 5 market days ("**5D-VWAMP**") immediately preceding the price fixing date(s).

For illustrative purposes, assuming the Placement Shares are issued at an indicative issue price of RM0.160 per Placement Share ("**Indicative Issue Price**"), this represents a discount of approximately 8.68% to the 5D-VWAMP of KNM Shares up to and including 19 November 2021 (being the market day preceding the date of this announcement) of RM0.1752 per KNM Share. Based on the Indicative Issue Price, the Proposed Private Placement will raise gross proceeds of RM53.46 million. The mechanism to determine the issue price of each tranche of the Placement Shares shall be determined separately in accordance with market-based principles.

2.2 Placement arrangement

The Placement Shares will be placed to independent investor(s) ("**Placees**"), where the Placees 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.

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, interested chief executive of KNM or a holding company of KNM, or interested persons connected with such director, major shareholder or chief executive of KNM; and

(b) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

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 Securities for the Proposed Private Placement or such other approved extended period.

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 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 is prior to the date of allotment and issuance of the Placement Shares and the Placement Shares will be subject to all the provisions of the Constitution of the Company relating to transfer, transmission and otherwise.

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, the placement proceeds to be raised from the Proposed Private Placement of RM53.46 million (based on the Indicative Issue Price) are expected to be utilised by KNM and its subsidiaries ("**KNM Group**" or "**Group**") in the following manner:

Details	**Notes**	**Amount RM'000**	**#Expected timeframe for utilisation of proceeds**
Working capital requirements	(a)	22,161	Within 12 months
Repayment of bank borrowings	(b)	30,000	Within 6 months
Estimated expenses for the Proposed Private Placement	(c)	1,300	Immediate
Total		**53,461**	

Notes:

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

(a) KNM Process Systems Sdn Bhd, a wholly-owned subsidiary of KNM in Malaysia, has secured new process equipment contracts worth RM55.0 million for its range of process equipment comprising waste drums, tank and pressure vessels for its customers located in Australia, Malaysia and Brazil in September 2021. As at the LPD, the Group's unbilled order books for the process equipment contracts of approximately RM150.0 million are expected to be completed by October 2022. As such, the Group intends to utilise approximately RM22.16 million of the proceeds raised from the Proposed Private Placement to support its working capital requirements for its ongoing manufacturing and fabrication works of process equipment contracts, as follows:

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	50%
(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	20%
(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%
(iv)	Payment of operation overhead of KNM Group which includes labour costs, factory expenses, statutory payment and other related costs	20%
		100%

(b) The Company intends to utilise up to RM30.0 million of the proceeds raised to repay its coupon payment and bank borrowings. As at 30 September 2021, the Group has total bank borrowings of RM1.28 billion, which comprise mainly bank overdrafts, banker's acceptances, bill payables, revolving credit, term loans, coupon payments on bond issuance and hire purchase. The breakdown of the utilisation of proceeds towards the payment of the Group's bank borrowings are as follows:

No.	Details	RM'000
(i)	Payment of coupon for the Thai Bonds	5,400
(ii)	Other bank borrowings	24,600
		30,000

Notes:

(i) On 18 November 2016, KNM had issued the "AAA" rated Thai bonds of THB2,780 million (equivalent to approximately RM352.57 million) ("**Thai Bonds**") at a fixed coupon rate of 3.00% per annum and for a 5-year tenure period, which matured on 18 November 2021. These Thai Bonds are guaranteed by the Credit Guarantee and Investment Facility, a trust fund managed by the Asian Development Bank ("**CGIF**"). The proceeds raised from the issuance of the Thai Bonds were utilised to finance the expansion and working capital requirements of the bio-ethanol plant in Thailand, which is owned and operated by Impress Ethanol Co. Ltd ("**IECL**"), a 72.0% owned subsidiary of Asia Bio-Fuels Ltd and Asia Biofuels II Ltd (collectively, the "**ABL Group**"), which in turn are wholly-owned subsidiaries of KNM Renewable Energy Sdn Bhd (a wholly-owned subsidiary of KNM).

On 18 November 2021, KNM announced that a non-payment event has occurred in relation to the payment of the principal sum and coupon payment of the Thai Bonds amounting to THB2,780 million (approximately RM352.57 million) and THB42.04 million (equivalent to approximately RM5.42 million), respectively ("**Non-Payment Event**"). Under the terms and conditions of the Thai Bonds, the Company has up to 2 December 2021 for the payment of the principal sum of THB2,780 million (approximately RM352.57 million) and up to 9 December 2021 for the payment of coupon for the Thai Bonds of RM5.42 million. The Non-Payment Event has occurred as KNM has encountered challenges and delays in refinancing the Thai Bonds due to the COVID-19 pandemic outbreak and unfavourable operating conditions of IECL's bio-ethanol plant in Thailand.

The Group intends to allocate RM5.40 million as full payment of the coupon of the Thai Bonds for the period from May to November 2021, which was due on 18 November 2021. The payment of the outstanding coupon payment is an interim measure undertaken by KNM to resolve the Non-Payment Event. As for the repayment sum of the principal payments of the Thai Bonds of THB2,780 million (equivalent to approximately RM352.57 million), KNM is in the advanced stages of discussions with several financial institutions to secure new financing facilities to redeem the principal sums of the Thai Bonds. However, the final approval/decisions of these new financing facilities are expected to occur only after the maturity date of the Thai Bonds. In addition, KNM has also appointed relevant consultants to monetise the investments of KNM, including disposal of assets / shares in IECL. KNM is also currently in close communications with CGIF on KNM's ongoing refinancing plans to address the Non-Payment Event and where applicable, to reimburse CGIF the guaranteed amount paid by CGIF to the bondholders of the Thai Bonds. Under the guarantee agreement dated 17 November 2016 entered into between CGIF and the Bank of Ayudhya Public Company, Limited (as the bondholders' representative for and on behalf of all bondholders of the Thai Bonds), the bondholders of the Thai Bonds have the rights to make a demand for payment of the guaranteed amount from CGIF within the demand period in the event that the Non-Payment Event is continuing after the abovementioned grace periods.

However, in the event that KNM is not able to fulfil its payment obligations of the Thai Bonds by the above deadlines, it will result in a default in payment by KNM. In such an event, the Board of KNM would be required to provide a solvency declaration to Bursa Securities, failing which KNM will have triggered the criteria under Paragraph 2.1(f) of Practice Note 17 ("**PN17**") of the Listing Requirements.

Note:

On 16 June 2021, Bursa Securities further announced that it has granted an 18-month relief period for a listed issuer that triggers the criteria under Paragraph 2.1(f) of PN17 of the Main LR ("**Suspended Criteria**") between 1 July 2021 and 31 December 2021. Such listed issuer will not be classified as a PN17 listed issuer during this period.

(ii) The Group intends to utilise up to RM24.60 million of the proceeds raised to repay its other outstanding bank borrowings, which comprise mainly bank overdrafts, banker's acceptances, bill payables, revolving credit, term loans, coupon payments on bond issuance and hire purchase. Based on the average annual interest rate of 5.5%, the repayment of bank borrowings amounting to RM24.60 million is expected to result in an annual gross interest savings of approximately RM1.35 million per annum to the Group. However, the repayment priority of the above bank borrowings has not been determined at this juncture and will depend on the relative cost of borrowing of the above facilities at the time of utilisation.

(c) The estimated expenses consist of fees payable to the relevant authorities, advisory and placement fees as well as other miscellaneous expenses to be incurred pursuant to the Proposed Private Placement.

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 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 institutions 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 the Group's additional working capital.

3. RATIONALE

The Proposed Private Placement will enable the Group to raise additional funds for the purposes as set out in Section 2.5 above.

After due consideration of the various methods of fund raising, the Board opines that the Proposed Private Placement is the most appropriate avenue of fund raising as the Proposed Private Placement enables the Company to raise funds expeditiously without incurring interest costs as compared to conventional bank borrowings thereby minimising any potential cash outflow in respect of interest servicing costs.

The Proposed Private Placement also provides the Company an expeditious way of raising funds from the capital market as opposed to other forms of fund raising. Upon completion of the Proposed Private Placement, the enlarged capital base is also expected to further strengthen the financial position of the Company. The Proposed Private Placement will improve the liquidity and financial flexibility of the Group by strengthening the Group's financial position.

4. PREVIOUS FUND-RAISING EXERCISES UNDERTAKEN

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

(a) Private placement of 296,923,400 KNM Shares at the issue price of RM0.175 each, raising total proceeds of RM51.96 million, which was completed on 3 February 2021 ("**Private Placement II**"). As at the LPD, the said proceeds have been fully utilised by the Company for the Payment for procurement of raw materials and consumables, payment to sub-contractor/suppliers for fabrication and site works, professional services and logistic expenses of RM30.66 million, repayment of bank borrowings of RM20.00 million as well as payment of expenses for the Private Placement II of RM1.30 million.

In addition to the above, on 24 May 2021, the Company announced that it proposed to undertake a private placement exercise of up to 987,517,700 new KNM Shares, representing not more than 30.0% of the then existing number of issued Shares. However, the said private placement exercise was not implemented as the shareholders' approval was not obtained during the EGM held on 29 June 2021.

4.1 Exercise of ESOS Options

The Company has raised a total amount of approximately RM6.61 million from the exercise of 53,671,000 ESOS Options into 53,671,000 KNM Shares from 1 January 2021 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 expanded by 7.1% in the first half of 2021. Growth is expected to continue in the second half of the year, particularly in the fourth quarter, as more economic and social sectors operate at full capacity. The expected growth trajectory aligns with the successful vaccination programme under the National COVID-19 Immunisation Programme ("**PICK**") and various stimulus and assistance packages to support the people and revitalise the economy. Overall economic growth is expected to expand between 3% and 4% in 2021. Continuation of the packages to combat the COVID-19 will have spillover effects and boost the economy in 2022. Hence, with strong economic fundamentals and a diversified structure, the domestic economy is forecast to expand between 5.5% and 6.5% in 2022. Nevertheless, the favourable outlook is predicated on other factors, including the successful containment of the pandemic, effective PICK implementation, and strong global economic prospects.

Monetary policy remains accommodative in cushioning the adverse effects of the prolonged nationwide lockdown on the economy while simultaneously supporting recovery. The policy also ensures that inflationary pressure remains manageable. The Overnight Policy Rate (OPR) and Statutory Reserve Requirement (SRR) were held steady during the first seven months of 2021 at 1.75% and 2.00%, respectively. Efforts to boost market liquidity include the flexibility accorded to banking institutions to utilise the Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to meet the SRR compliance until the end of 2022. The banking sector remains strong, backed by sufficient liquidity and capital buffer, while the capital market exhibits resilience underpinned by ample domestic liquidity and a supportive policy environment. The recent launch of the third Capital Market Masterplan, 2021 – 2025, will ensure the capital market remains relevant, efficient and diversified to expedite the growth of sustainable and inclusive economy (Securities Commission Malaysia, 2021). The future stance of monetary policy will continue to be guided by new data and information and their implications on the overall outlook for inflation and domestic growth.

As Malaysia moves into the COVID-19 endemic phase, the Government will focus on ensuring the livelihood of the people, enhancing businesses and facilitating economic activities in the immediate and the new norm of post-pandemic. Currently, the Government is at the end of the six-stage strategy, namely reform which involves implementing the Twelfth Malaysia Plan (12MP) through the annual budgets and other sectorial masterplans. At this stage, the Government will focus on reforms that address various structural challenges that could hinder its vision of becoming a prosperous, inclusive and sustainable nation.

(Source: Economic Outlook 2022, Ministry of Finance Malaysia)

Under the Twelfth Malaysia Plan 2021-2025 ("**Twelfth Plan**") by the Economic Planning Unit (EPU), potential output is expected to expand between 4% and 5%. Private sector activity will rebound and remain the anchor of growth supported by accommodative monetary and fiscal policies. Labour market conditions are expected to improve with full employment in the Twelfth Plan, while inflation is projected to be stable. During the Twelfth Plan, the gross domestic product (GDP) is expected to grow between 4.5% and 5.5% per annum led by higher labour productivity growth, resulting in a US$6.4 per annum rise in gross national income (GNI) per capita, from RM42,503 (US$10,111) in 2020 to RM57,882 (US$14,842) in 2025. Salaries and wages are also expected to rise, resulting in a more equitable distribution of income between capital owners and employees as well as contributing to higher household income. The overall wellbeing of the rakyat is expected to improve, supported by both economic and social progress as well as balanced and inclusive regional development.

(Source: Twelfth Plan, September 2021, EPU)

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 coalfired 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) Brent crude oil spot prices averaged USD84 per barrel in October 2021, up USD9.00 per barrel from September 2021 and up USD43 per barrel from October 2020. Crude oil prices have risen over the past year as result of steady draws on global oil inventories, which averaged 1.9 million barrels per day during the first three quarters of 2021. In addition to sustained inventory draws, prices increased after the Organisation for the Petroleum Exporting Countries and 10 additional oil exporting countries ("**OPEC+**") announced in early October 2021 and reaffirmed on 4 November 2021, that the group would keep current production targets unchanged. The International Energy Agency ("**IEA**") expects Brent prices will remain near current levels for the rest of 2021, averaging USD82 per barrel in the fourth quarter of 2021. In 2022, the IEA expect that growth in production from OPEC+, U.S. tight oil, and other non-OPEC countries will outpace slowing growth in global oil consumption and contribute to Brent prices declining from current levels to an annual average of USD72 per barrel.

    IEA estimates that 98.9 million barrel per day of petroleum and liquid fuels was consumed globally in October, an increase of 4.5 million barrel per day from October 2020 but 1.9 million barrel per day less than in October 2019. IEA revised up its forecast for consumption of petroleum and liquid fuels for the fourth quarter of 2021, partially as a result of fuel switching from natural gas to petroleum in the electric power sector in parts of Asia and Europe. This fuel switching is a result of increases in natural gas prices in Asia and Europe. IEA forecast that global consumption of petroleum and liquid fuels will average 97.5 million barrel per day for all of 2021, which is a 5.1 million barrels per day increase from 2020. IEA forecast that global consumption of petroleum and liquid fuels will increase by 3.3 million barrels per day in 2022.

    (Source: IEA)

(b) 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

In view of the prospects of 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.

On a positive note, the Group believes that COVID-19 and the fluctuations in oil prices in the past 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. In addition, the Non-Payment Event in relation to the Thai Bonds may have an adverse impact on the Group and its overall operations.

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

The Board is of the view that the Proposed Private Placement will allow the Group to raise funds for the purposes as detailed in Section 2.5 of this announcement in an expeditious manner without incurring additional interest cost or servicing additional principal payments, thereby minimising any potential cash outflow in respect of interest servicing costs and principal repayments.

As illustrated in Section 6.2 of the 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 FYE 2020 and the Indicative Issue Price, the NA position of RM1.78 billion and gearing level of 0.77 times of KNM Group is expected to improve to RM1.90 billion and 0.72 times respectively, upon completion of the Proposed Private Placement.

However, the increase in the number of issued Shares pursuant to the Proposed Private Placement would result the shareholdings of the Company's existing shareholders to be diluted. It may also dilute the EPS of the Group if the earnings of the Group do not increase in tandem with the increase in the number of KNM Shares issued pursuant to the Proposed Private Placement.

5.5 The adequacy of the Proposed Private Placement in addressing the Group's financial concerns

The Proposed Private Placement will enable the Group to achieve the following objectives:

(a) an interim measure to meet Group's immediate and urgent funding needs for its working capital requirements for its ongoing fabrication works of the Group's process equipment contracts by its Malaysia subsidiary with an unbilled order book of approximately RM150.0 million as at LPD as well as full payment of the coupon of the Thai Bonds of RM5.40 million and repayment of existing bank borrowings of RM24.60 million; and

(b) the Proposed Private Placement is expected to improve the financial position of the Company, as illustrated in Section 6 of this announcement;

Based on the above, the Group shall explore and evaluate other suitable funding proposals for the Group's long term financial and funding requirements. In addition, the Company will continue to undertake more stringent cost control measure for its existing business to improve the Group's profitability levels, which include, but not limited to the close monitoring of the developments in the O&G industry and undertaking conservative costing control.

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 '000	RM'000
Issued share capital as at LPD (excluding 1,841,275 Treasury Shares)	3,341,329	2,017,256
Placement Shares to be issued pursuant to the Proposed Private Placement	334,133	(i)53,461
Enlarged issued share capital	**3,675,462**	**2,070,717**

Note:

(i) Based on the Indicative Issue Price.

6.2 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 31 December 2020	(i)Subsequent events	(ii)After the Proposed Private Placement
	RM'000	RM'000	RM'000
Share capital	2,005,665	2,017,256	2,070,717
Treasury shares	(53,425)	(4,214)	(4,214)
Reserves	(177,164)	(177,174)	(iii)(178,474)
Shareholders equity/NA	**1,775,076**	**1,835,868**	**1,888,029**
Non-controlling interest	(22,824)	(22,824)	(22,824)
Total equity	**1,752,252**	**1,813,044**	**1,865,205**
No. of Shares ('000) (excluding Treasury Shares)	2,969,234	3,341,329	3,675,462
NA per share (RM)(iv)	0.60	0.55	0.51
Total borrowings (RM'000)	1,362,604	1,362,604	1,338,004
Gearing (times)(v)	0.77	0.75	0.72

Notes:

(i) After adjusting the following subsequent events since 31 December 2020 up to the LPD, as follows:

(a) Issuance of 53,671,000 new KNM Shares from the exercise of ESOS Options since 1 January 2020 up to the LPD;

(b) Issuance of 296,923,400 new KNM Shares pursuant to Private Placement II which was completed on 3 February 2021;

(c) After adjusting for the total expenses incurred for the Private Placement II of approximately RM1.85 million as share-based expenses on the Group's issued share capital;

(d) Disposal of 9,000,000 Treasury Shares on 2 April 2021 for a total disposal consideration of RM1.76 million, resulting in a one-off loss on disposal of RM18.85 million, debited into the share capital of KNM; and

(e) Disposal of 12,500,000 Treasury Shares on 23 April 2021 for a total disposal consideration of RM2.31 million, resulting in a one-off loss on disposal of RM26.31 million, debited into the share capital of KNM.

(ii) Based on the Indicative Issue Price.

(iii) After adjusting for the estimated expenses relating to the Proposed Private Placement of approximately RM1.30 million.

(iv) Computed by taking the total NA of the Company divided by the number of Shares in issuance.

(v) Computed by taking the total borrowings over the total equity of the Company.

6.3 Earnings and EPS

Save for the dilution in EPS as a result of the increase in the number of Shares to be issued pursuant to the Proposed Private Placement, the Proposed Private Placement is not expected to have any immediate material effect on the consolidated earnings/ losses of the Group. For illustrative purposes, assuming that the Proposed Private Placement was effected at the beginning of the financial year ended ("**FYE**") 31 December 2020 of KNM, the pro forma effects on the earnings and EPS position of KNM Group are as follows:

	FYE 2020	**Subsequent events**	**After Proposed Private Placement**
Profit after taxation (RM'000)	(i)56,571	56,571	(iii)56,621
No. of Shares ('000) (excluding Treasury Shares)	2,969,234	(ii)3,341,329	3,675,462
EPS (sen)	1.91	1.69	1.54

Notes:

(i) Based on our audited consolidated financial statements for FYE 2020.

(ii) After adjusting for the following subsequent events since FYE 2020 up to LPD:

(a) Issuance of 53,671,000 new KNM Shares from the exercise of ESOS Options since 1 January 2021 up to LPD;

(b) Issuance of 296,923,400 new Shares pursuant to Previous Private Placement II; and

(c) Disposal of 9,000,000 Treasury Shares on 2 April 2021 and 12,500,000 Treasury Shares on 23 April 2021.

(iii) After deducting the estimated listing and processing fees of the Proposed Private Placement amounting to RM1.30 million and the estimated annual gross interest savings of RM1.35 million per annum expected to be enjoyed by the Group, arising from the repayment of bank borrowings of RM24.60 million as set out in Section 2.5 of this announcement.

6.4 Substantial shareholders' shareholding

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

Substantial shareholders	As at 5 November 2021			
	Direct		Indirect	
	No. of Shares	(i)%	No. of Shares	(i)%
MAA Group Berhad	266,001,800	7.96	(iii)80,000,000	2.39
Ir Lee Swee Eng	47,116,434	1.41	(iv)215,403,863	6.45
Gan Siew Liat	47,296,250	1.42	(v)215,224,047	6.44
Placees (collectively)	-	-	-	-

Substantial shareholders	After Proposed Private Placement			
	Direct		Indirect	
	No. of Shares	(ii)%	No. of Shares	(ii)%
MAA Group Berhad	266,001,800	7.24	(iii)80,000,000	2.18
Ir Lee Swee Eng	47,116,434	1.28	(iv)215,403,863	5.86
Gan Siew Liat	47,296,250	1.29	(v)215,224,047	5.86
Placees (collectively)	334,132,800	9.09	-	-

Notes:

(i) Based on the existing share capital of 3,341,328,680 Shares (excluding Treasury Shares) as at the LPD.
(ii) Based on the enlarged share capital of 3,675,461,480 Shares (excluding Treasury Shares) after the Proposed Private Placement.
(iii) Deemed interested by virtue of its indirect subsidiary, Imperium Edumaax Sdn Bhd.
(iv) Deemed interested by virtue of his indirect interest in Inter Merger Sdn Bhd, direct interest in Tegas Klasik Sdn Bhd, direct interest in Aveda Assets Capital Inc. and interest of his spouse and children in KNM.
(v) Deemed interested by virtue of her indirect interest in Inter Merger Sdn Bhd, and interest of her spouse in Tegas Klasik Sdn Bhd and Aveda Assets Capital Inc. and interest of her spouse and children in KNM.

6.5 Convertible Securities

As at the LPD, save for the 149,633,300 outstanding ESOS Options, the Company does not have any convertible securities in issue.

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 be dependent on, among others the future financial performance as well as cash position of the Group, after taking into consideration the 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; and

(b) 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

None of the 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.

9. DIRECTORS' RECOMMENDATION

The Board, 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. PRINCIPAL ADVISER AND PLACEMENT AGENT

M&A Securities has been appointed as Principal Adviser and Placement Agent 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 1 month 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 31 December 2021.

This announcement is dated 22 November 2021.

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APPENDIX I - COMMENTARIES ON THE FINANCIAL PERFORMANCES OF KNM GROUP FOR THE PAST 3 YEARS AS WELL AS LATEST QUARTERLY PERIOD

The summary of financial performances of the KNM Group for the financial years ended 31 December ("**FYE**") 2018 to 2020 as well as the quarterly financial results for the financial periods ended 30 June 2020 and 30 June 2021 together with the commentaries on past performances are as follows:

	Audited			**Unaudited**	
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 30 June 2020**	**FPE 30 June 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	1,432,333	1,632,595	1,351,447	669,590	477,214
Gross profit ("**GP**")	117,135	293,780	290,707	132,388	109,892
Profit before tax ("**PBT**") / Loss before tax ("**LBT**")	(412,352)	70,414	81,137	33,003	13,921
Profit after tax ("**PAT**") / Loss after tax ("**LAT**")	(784,676)	35,057	56,571	26,812	5,044
Shareholders' equity / Net Asset ("**NA**") (RM'000)	1,540,778	1,664,069	1,775,076	1,749,951	1,812,309
Number of shares ('000)	2,346,096	2,608,073	2,969,234	2,614,879	3,318,563
Net basic EPS / (Loss per share) (sen)[(1)]	(33.45)	1.34	1.91	1.03	0.15
NA per share (RM)	0.66	0.64	0.60	0.67	0.55
GP margin (%)	8.2	18.0	21.5	19.8	23.0

Note:

(1) Derived based on the PAT/LAT divided by the number of ordinary shares.

FYE 2018 vs FYE 2019

The Group registered overall improvement in its revenue levels, which increased by 14.0% or approximately RM200.26 million, from RM1.43 billion during FYE 2018 to RM1.63 billion during FYE 2019, which was mainly due to higher orders of process equipment received from its customers in Malaysia and Europe regions. The Group's overall GP margin had also improved from 8.2% in FYE 2018 to 18.0% in FYE 2019, due to improvements for the following regions:

(i) GP margins for the Asia and Oceanic regions improved to 10.8% during FYE 2019, as compared to gross loss of 54.4% during FYE 2018; and

(ii) GP margins for the Europe region improved to 20.2% during FYE 2019, as compared to GP margin of 19.4% during FYE 2018.

The improvement in the above GP margin was mainly attributable to rigorous cost controls and better profit margins from new orders of process equipment secured from its customers in Europe, which resulted in lower operating costs for its operations in Europe (particularly from the Group's operations in Germany), Asia and Oceania regions.

As a result of the Group's rigorous cost controls achieved by the Group's operations in Europe, Asia and Oceania, the Group recorded lower overall administrative and other operating expenses, resulting in the Group recording operating profits of approximately RM137.28 million. Consequently, the Group recorded PAT position of approximately RM35.06 million during FYE 2019.

FYE 2019 vs FYE 2020

Amid the infectious pandemic, our Group's revenue reduced by RM0.28 billion or approximately 17.2% from RM1.63 billion in the FYE 2019 to RM1.35 billion in FYE 2020 mainly due to low revenue recognition from the Asia and Oceania segment affected by the temporary closure of operations in China and Malaysia following the lockdown restrictions and nationwide Movement Control Order ("**MCO**"), coupled with the low bio-ethanol production in our Thailand's operations.

Our Group attained a higher PAT of RM56.57 million in FYE 2020 as compared with RM35.06 million in FYE 2019, representing an increase of RM21.51 million or approximately 61.3%. The improvement in profitability was mainly attributable to leaner operational costs, disposal of a non-performing operations in China and a lower finance cost as a result of repayment of borrowings during FYE 2020.

FPE 30 June 2020 vs FPE 30 June 2021

The Group posted lower revenue levels of approximately RM477.21 million during FPE 30 June 2021, as compared with revenue levels of approximately RM669.59 million achieved in the FPE 30 June 2020, mainly due to slow replenishment of orders caused by the COVID-19 pandemic worldwide.

The Group registered a higher gross profit margin of approximately 23.0% in the FPE 30 June 2021 as compared with 19.8% in the corresponding period of 2020 mainly due to continuous rigorous cost savings from its supply of process equipment segment.

The Group posted a lower PBT of approximately RM13.92 million during FPE 30 June 2021, as compared with PBT of approximately RM33.00 million during FPE 30 June 2020. This was mainly due to partly due to the finance costs incurred for certain construction projects within the Group, which have been expensed off into income statement in the current financial period.

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