

KYM HOLDINGS BHD. (“KYM” OR “COMPANY”)

- (I) PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE TOTAL ISSUED AND PAID-UP CAPITAL OF KYM; AND**
- (II) PROPOSED ESTABLISHMENT OF AN EMPLOYEE SHARE OPTION SCHEME.**

1.0 INTRODUCTION

On behalf of the Board of Directors of KYM (“Board”), MIMB Investment Bank Berhad (“MIMB”) wishes to announce that the Company is proposing to implement the following:-

- (i) proposed private placement of up to 8,113,450 new ordinary shares of RM0.50 each in KYM (“KYM Shares”), representing up to 10% of the existing issued and paid-up share capital of KYM (“Proposed Private Placement”); and
- (ii) proposed establishment of a new employee share option scheme involving up to 15% of the issued and paid-up share capital of KYM to eligible employees and Directors of KYM and its subsidiaries (“KYM Group”) (“Proposed ESOS”).

(collectively, the “Proposals”)

2.0 DETAILS OF THE PROPOSALS

2.1 PROPOSED PRIVATE PLACEMENT

2.1.1 Details of the Proposed Private Placement

The Proposed Private Placement entails the issuance of up to 8,113,450 new KYM Shares (“Placement Shares”), representing not more than 10% of the existing issued and paid-up share capital of KYM of RM40,567,250 comprising 81,134,500 KYM Shares.

The Placement Shares shall be issued under the existing general mandate approved by the shareholders of KYM at the Company’s Annual General Meeting (“AGM”) held on 30 July 2009 pursuant to Section 132D of the Companies Act, 1965, that authorised the Board to allot and issue new KYM Shares from time to time and upon such terms and conditions and for such purpose as the Board may deem fit provided that the aggregate number of KYM Shares to be issued shall not exceed 10% of the issued and paid-up share capital of the Company. The aforementioned general mandate shall be valid until the conclusion of the next AGM of the Company.

An application will be made to Bursa Malaysia Securities Berhad (“Bursa Securities”) for the listing of and quotation of the Placement Shares on the Main Market of Bursa Securities.

The Placement Shares are expected to be issued in one (1) tranche. However, depending on market conditions, the Company may issue the Placement Shares in separate tranches and at different issue prices for each tranche.

2.1.2 Places

KYM has appointed MIMB as the placement agent for the Placement Shares to independent third-party placees (who fall within Schedules 6 and 7 of the Capital Markets and Services Act, 2007) to be identified at a later date.

2.1.3 Pricing of Placement Shares

The issue price of the Placement Shares is fixed at RM0.75, which represents a premium of approximately RM0.03 or 4.17% to the volume weighted average market price (“VWAMP”) of KYM Shares for the five (5) market days from 13 January 2010 to 19 January 2010 of approximately RM0.72 per Share.

2.1.4 Ranking of Placement Shares

The Placement Shares shall, upon allotment and issue, rank *pari passu* in all respects with the existing issued and paid-up KYM Shares save and except that the Placement Shares shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the Placement Shares.

For avoidance of doubt, the placees will not be entitled to the free warrants to be issued by KYM as announced on 2 July 2009.

2.1.5 Utilisation of Proceeds

Based on the issue price of the Placement Shares at RM0.75 per Share and based on an issuance of 8,113,450 Placement Shares, the Proposed Private Placement is expected to raise gross proceeds of approximately RM6.08 million. The proceeds raised from the Proposed Private Placement are proposed to be utilised as follows:-

Proposed Utilisation	Expected time frame for utilisation	RM'000
Working capital for the KYM Group	Within 12 months	5,985
To defray expenses relating to the Proposed Private Placement	Within 1 month	100
Total		6,085

Any difference between the indicative proceeds above and the actual proceeds raised from the Proposed Private Placement (which is dependent on final number of Placement Shares issued) as well as any differences in the actual expenses relating to the Proposed Private Placement shall be adjusted to the allocation of working capital.

2.2 PROPOSED ESOS

The Proposed ESOS will involve the granting of options to subscribe for new KYM Shares (“ESOS Options”) to eligible employees and Directors of the KYM Group who meet the criteria of eligibility for participation in the Proposed ESOS (“Eligible Persons”), in accordance with the by-laws of the Proposed ESOS (“By-Laws”).

2.2.1 Total number of KYM Shares available under the Proposed ESOS

The aggregate number of KYM Shares to be allotted and issued under the Proposed ESOS shall not exceed 15% of the issued and paid-up share capital of the Company at any point in time during the duration of the Proposed ESOS.

An application will be made for the listing of the new KYM Shares to be issued pursuant to the exercise of the ESOS Options on the Main Market of Bursa Securities.

For the avoidance of doubt, the Proposed ESOS is expected to be implemented after the completion of the Proposed Private Placement.

2.2.2 Maximum allowable allotment and basis of allocation

The aggregate number of new KYM Shares that may be offered under the ESOS Options to Eligible Persons shall take into consideration, amongst other factors, the Eligible Person's length of service, seniority and performance in the KYM Group subject to the following:

- (a) not more than 50% of the total number of KYM Shares to be issued under the Proposed ESOS shall be allocated, in aggregate, to Directors and senior management of the KYM Group; and
- (b) not more than 10% of the total number of KYM Shares to be issued under the Proposed ESOS shall be allocated to any Eligible Persons, who either singly or collectively through persons connected with them holds 20% or more of the issued and paid-up share capital of KYM,

provided always that it is in accordance with any prevailing guidelines, the Main Market Listing Requirements of Bursa Securities ("Listing Requirements") or any other relevant authorities and as amended from time to time.

2.2.3 Eligibility to participate in the Proposed ESOS

Only employees and Directors of the KYM Group will be eligible to participate in the Proposed ESOS. In any event, the selection of any Eligible Persons shall be at the absolute discretion of an administering committee to be established by the Board ("Option Committee").

Further details of the eligibility to participate in the Proposed ESOS will be set out in the circular to shareholders which will be despatched in due course.

2.2.4 Duration of the Proposed ESOS

The Proposed ESOS shall come into force on the date of full compliance with all relevant requirements pursuant to the Listing Requirements ("Effective Date").

The Proposed ESOS shall be in force for a duration of five (5) years from the Effective Date. The Proposed ESOS can be extended for a period of up to five (5) years at the discretion of the Board and upon recommendation by the Option Committee.

2.2.5 Exercise price

The price payable for the KYM Shares upon the exercise of any ESOS Option granted pursuant to the Proposed ESOS shall be based on the higher of the following:

- (a) the VWAMP of the KYM Shares for the five (5) market days immediately preceding the date the option is offered, with a discount of not more than 10%; and
- (b) the par value of the KYM Shares.

The exercise price shall be subject to adjustments in accordance with the By-Laws.

2.2.6 Ranking of the KYM Shares arising from the Proposed ESOS

The new KYM Shares to be allotted and issued upon any exercise of the ESOS Options shall,

upon allotment and issue, rank *pari passu* in all respects with the existing issued and paid-up KYM Shares save and except that the new KYM Shares so allotted and issued shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of such new KYM Shares.

2.2.7 Retention period

An eligible director of the KYM Group who is in a non-executive capacity must not sell, transfer or assign any new KYM Shares obtained through the exercise of the ESOS Options granted to him pursuant to the Proposed ESOS within one (1) year from the date of grant of such ESOS Options.

2.2.8 Utilisation of proceeds

The actual proceeds to be received by the Company pursuant to the exercise of the ESOS Options under the Proposed ESOS will depend on, the number of ESOS Options granted and exercised and the exercise price of the ESOS Options.

Proceeds raised from the exercise of the ESOS Options shall be utilised for the KYM Group's working capital.

3.0 RATIONALE FOR THE PROPOSALS

3.1 PROPOSED PRIVATE PLACEMENT

The Proposed Private Placement will provide the KYM Group with additional working capital expeditiously at a substantially lower cost as compared to other forms of financing.

3.2 PROPOSED ESOS

The establishment of the Proposed ESOS is to:

- (a) recognise and reward the Eligible Persons' contributions to the KYM Group;
- (b) motivate and align the long term interest of the Eligible Persons towards the KYM Group's strategic goals via the ESOS Options to participate in the Company's equity; and
- (c) retain the Eligible Persons as the Proposed ESOS will allow them to participate directly in the equity of KYM and enhance their sense of belonging and ownership in the KYM Group.

4.0 EFFECTS OF THE PROPOSED PRIVATE PLACEMENT AND PROPOSED ESOS

4.1 Share Capital

The effects of the Proposed Private Placement and Proposed ESOS on the share capital of KYM are as follows:-

	No. of KYM Shares (‘000)	Par value RM	Share Capital RM (‘000)
Existing issued and paid-up share capital	81,135	0.50	40,568
To be issued pursuant to the Proposed Private Placement	8,113	0.50	4,057
After the Proposed Private Placement	89,248	0.50	44,625
To be issued pursuant to the Proposed ESOS	13,387	0.50	6,693
Enlarged issued and paid-up share capital	102,635	0.50	51,318

4.2 Earnings and Earnings Per Share

4.2.1 Proposed Private Placement

The Proposed Private Placement is not expected to have a material effect on the earnings of the KYM Group for the financial year ending 31 January 2010. However, the earnings per share of the Company for the financial year ending 31 January 2011 shall correspondingly reduce as a result of the increase in the total issued and paid-up share capital of the Company pursuant to the Proposed Private Placement.

Any further potential effect of the Proposed Private Placement on the earnings per share of the KYM Group will be dependent upon *inter alia*, the future financial performance of the KYM Group and the number of Placement Shares issued.

4.2.2 Proposed ESOS

The Proposed ESOS is not expected to have any material and immediate effect on the earnings of the KYM Group. Any potential effect on the earnings per share of the KYM Group in the future would depend on the number of new KYM Shares issued under the Proposed ESOS and the exercise price of the ESOS Options.

The cost relating to the ESOS Options granted pursuant to the Proposed ESOS will need to be measured at grant date and recognised as an expense in the income statement of KYM over the vesting period of such ESOS Options pursuant to FRS2. The total cost of the ESOS Options granted would depend on, *inter alia*, the number of ESOS Options granted and the theoretical fair value of such ESOS Options granted. However, the estimated cost does not represent a cash outflow by the Company as it is merely an accounting treatment.

4.3 Net Assets (“NA”) and Gearing

4.3.1 Proposed Private Placement

The effects of the Proposed Private Placement on the NA and Gearing based on KYM’s consolidated audited financial statements for the financial year ended (“FYE”) 31 January 2009 are as follows:-

	Audited as at FYE 31 January 2009	(I) After the Share Premium Reduction and the Par Value Reduction⁽¹⁾	(II) After (I) and the Proposed Private Placement⁽²⁾
	(RM’000)	(RM’000)	(RM’000)
Share capital	81,135	40,568	44,625
Share premium	35,803	-	1,928
Capital Reserve	-	10,142	10,142
Revaluation reserve	31,063	31,063	31,063
Accumulated losses	(124,551)	(58,573)	(58,573)
Shareholders’ equity/NA	<u>23,450</u>	<u>23,200</u>	<u>29,185</u>
Par value per ordinary share (RM)	1.00	0.50	0.50
No. of shares	81,135	81,135	89,249
NA per Share (sen)	28.9	28.6	32.7
Total borrowings (RM’000)	209,729	209,729	209,729
Gearing (times)	8.94	9.04	7.19

Note:-

⁽¹⁾ *The Share Premium Reduction and Par Value Reduction were completed on 6 August 2009 and 29 September 2009, respectively. As a result, the Company’s share premium was utilised to reduce the accumulated losses of the Company and the par value of KYM’s shares were reduced from RM1.00 to RM0.50 per share. The estimated expenses relating to the Share Premium Reduction and Par Value Reduction is RM250,000.*

⁽²⁾ *Assuming the Placement Shares are issued at RM0.75 each. The estimated expenses relating to the Proposed Private Placement is RM100,000.*

4.3.2 Proposed ESOS

The Proposed ESOS will not have any immediate effect on the consolidated NA of the Company until the ESOS Options under the Proposed ESOS are exercised.

Upon exercise of the said ESOS Options, the NA of the Company may increase or decrease on an aggregate basis, the quantum of which depends on the number of ESOS Options offered, the fair value of the Options after taking into consideration the Exercise Price.

Whilst the offering of the ESOS Options under the Proposed ESOS is expected to result in the recognition of a charge in the income statements of the Group over the vesting period pursuant to FRS2, the recognition of such FRS2 charge would not have any impact on the NA of the Group as the corresponding amount will be classified as an equity reserve which forms part of the Company's shareholders' funds. In the event none of the ESOS Options granted are exercised within the duration of the Scheme, the said amount would be transferred into the Company's retained earnings. On the other hand, the amount pertaining to the Options that are exercised would be transferred into the Company's share premium account.

The issuance of new KYM Shares under the Proposed ESOS may have some dilutive effects on the Company's consolidated NA per Share.

4.4 Dividends

The Proposals are not expected to have any material effects on the dividend policy of the Company. Any potential effect of the Proposals on the dividends to be declared for the future financial years will be dependent on the dividend rate to be determined after taking into consideration the financial performance of the KYM Group.

4.5 Substantial Shareholders' Shareholdings

The effects of the Proposals on the shareholdings of the substantial shareholders of the Company are set out below:-

Shareholder	Existing				After the Proposed Private Placement ⁽¹⁾				After the Proposed Private Placement and Proposed ESOS ⁽²⁾			
	<----Direct---->		<---Indirect--->		<----Direct---->		<---Indirect--->		<----Direct---->		<---Indirect--->	
	No. of KYM Shares	%	No. of KYM Shares	%	No. of KYM Shares	%	No. of KYM Shares	%	No. of KYM Shares	%	No. of KYM Shares	%
Cheong Chan Holdings Sdn Bhd	22,300,000	27.49	-	-	22,300,000	24.99	-	-	22,300,000	21.73	-	-
Dato' Lim Kheng Yew	3,003,193	3.70	29,213,000	36.01	3,003,193	3.36	29,213,000	32.73	4,341,893	4.23	29,213,000	28.46

Note:-

⁽¹⁾ Assuming the Placement Shares are placed to independent third-party placees, each holding less than 5% equity interest in KYM.

⁽²⁾ For illustration purposes, 1,338,700 ESOS Options are assumed to be allocated and exercised in full by Dato' Lim Kheng Yew under the Proposed ESOS.

5.0 APPROVALS REQUIRED

5.1 Proposed Private Placement

The Proposed Private Placement is conditional upon 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 relevant authorities, if required.

At the Company's AGM held on 30 July 2009, the shareholders of KYM passed a resolution that empowered the Board to allot and issue new KYM Shares from time to time and upon such terms and conditions and for such purposes as the Board may deem fit and expedient in the best interest of the Company, provided that the aggregate number of KYM Shares to be issued shall not exceed 10% of the issued and paid-up share capital of the Company, pursuant to Section 132D of the Companies Act, 1965 ("Section 132D Authority").

Approval from the shareholders of KYM for the Proposed Private Placement will not be required as long as the Section 132D Authority is in force during the issuance of the Placement Shares. However, in the event that the Section 132D Authority is no longer in force during the issuance of the Placement Shares, shareholders' approval would be sought for the Proposed Private Placement.

The relevant applications to the regulatory authorities shall be submitted within one (1) month from the date of this announcement.

5.2 Proposed ESOS

The Proposed ESOS is conditional upon approvals being obtained from the following:-

- (a) Bursa Securities for the listing of and quotation for the new KYM Shares to be issued upon exercise of the ESOS options granted under the Proposed ESOS;
- (b) the shareholders of KYM at an extraordinary general meeting ("EGM") to be convened; and
- (c) any other relevant authorities, if required.

The relevant applications to the regulatory authorities shall be submitted within two (2) months from the date of this announcement.

6.0 INTER-CONDITIONALITY

The Proposed Private Placement and the Proposed ESOS are not inter-conditional and not conditional upon any other corporate exercise(s) (if any).

7.0 ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposed Private Placement to be completed during the first quarter of 2010. The Proposed ESOS will be implemented during the first quarter of 2010.

8.0 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

8.1 Proposed Private Placement

None of the Directors and/or major shareholders of the Company and/or any persons connected to them have any interest, whether direct or indirect, in the Proposed Private Placement.

8.2 Proposed ESOS

All the directors of KYM are entitled to participate in the Proposed ESOS and are therefore deemed interested in the Proposed ESOS. Accordingly, the Directors of KYM have deliberated and resolved to present the Proposed ESOS to the shareholders of KYM for their consideration and approval at the forthcoming EGM. The allocation of ESOS Options to be made to the Directors and persons connected with the Directors and/or major shareholders would also be presented to the shareholders of KYM for their consideration and approval.

The persons connected with the Directors and/or major shareholders who are entitled to participate in the Proposed ESOS are as follows:

Name	Company	Relationship with Directors and/or major shareholders	Position
Lim Kheng Eng	KYM Industries (M) Sdn Bhd	Brother to Dato' Kheng Yew	Lim General Manager
Lim Kheng Keat	KYM Industries (M) Sdn Bhd	Brother to Dato' Kheng Yew	Lim General Manager, Production
Lim Kheng Ee @ Lim Kheng Yee	Teluk Rubiah Country Club Sdn Bhd	Brother to Dato' Kheng Yew	Lim Director

The Directors will also abstain from all deliberations and voting at Board meetings in relation to their respective entitlements and where applicable, allocation of ESOS Options to persons connected with them under the Proposed ESOS. Further, the Directors will abstain from voting and will ensure that all persons connected to them will also abstain from voting, in respect of their direct and/or indirect shareholdings in KYM on the resolutions pertaining to the Proposed ESOS as well as their respective entitlements and where applicable, allocation of ESOS Options to persons connected to them under the Proposed ESOS to be tabled at the forthcoming EGM.

9.0 DIRECTORS' RECOMMENDATION

The Board, having considered all aspects of the Proposals, is of the opinion that the terms and conditions of the Proposals are fair and reasonable and in the best interest of the Company.

10.0 ADVISER AND PLACEMENT AGENT

MIMB has been appointed as the Adviser for the Proposals and Placement Agent to KYM for the Proposed Private Placement.

11.0 EGM

A circular to the shareholders of the Company setting out the details of the Proposed ESOS and the proposed allocation of ESOS Options to the Directors and persons connected to them together with the notice to convene the EGM will be despatched to the shareholders of KYM in due course.

This announcement is dated 20 January 2010.