SAUDEE
Group Berhad
[838172-P]

REPLY TO MSWG LETTER DATED 19 MARCH 2021

Question 1

As stated in the Circular Section 5, page 19, the proceeds to be raised from the Proposed Private Placement and Proposed Rights Issue with free Warrants (Proposals”) is expected to be contribute positively to the future earnings of the Group.

Considering that Proposed Private Placement of up to approximately 30% of the total number of issued shares is dilutive to the consolidated earnings and earnings per share (EPS) (Section 7.4, page 33 of the Circular), what is the estimated timeframe that the Group would generate the level of returns to be profitable?

Our response to question 1:

As per Section 4 of the Circular, the funds raised will generate returns in the following estimated timeframe:-

(i) Repayment of borrowings within 6 months from completion of the Proposals. This will increase our profitability immediately after repayment, at an estimated annual pre-tax interest savings of RM0.955 million.

(ii) Construction of a cold room within 12 months from completion of the Proposals. The new cold room will increase our storage space to accommodate our expansion plans.

Our response to question 1:

(iii) Expansion of production capacity within 12 months from completion of the Proposals by purchasing additional machineries and replacing parts of its older machineries used in the Group's production lines.

(iv) Marketing, advertisement, general working capital and future acquisitions within 24 months from completion of the Proposals.

Question 2

It is the Board's intention to issue the Placement Shares at a maximum discount of 20% to the 5-market day volume weighted average market price of Saudee Shares immediately before the price-fixing date ("20% discount") (Section 2.5, page 3 of the Circular).

In view of the 30% dilution to the existing shareholders' shareholdings and the 20% Discount to be given to the identified third party investor(s) for the Proposed Private Placement ("Placees") and also the Company's intention to implement Proposed Right Issue with free Warrants after the Proposed Private Placement such that the Placees will be entitled to participate in the Proposed Rights Issue with free Warrants (Section 3.1, page 4 of the Circular). Is the Proposed Private Placement a fair fundraising option to the existing shareholders?

Our response to question 2:

The Proposed Private Placement would enable the Company to raise funds more expeditiously for the proposed use as set out above, without incurring additional interest expense from bank borrowings, and minimising any potential cash outflow in respect of interest servicing costs. Further, as the Placement Shares need not necessarily be placed to an existing Shareholder, the Proposed Private Placement would allow the Company to access a wider group of investors for financing purposes instead of solely relying on its existing Shareholders.

The maximum discount of up to 20% is within the usual discount range given for private placement exercises, which the Board deems is sufficiently attractive to entice subscription by potential investors.