

MULTIPLE PROPOSALS ADVANCECON HOLDINGS BERHAD ("ADVANCECON" OR THE "COMPANY") I. PROPOSED ACQUISITION; AND II. PROPOSED DIVERSIFICATION (COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

ADVANCECON HOLDINGS BERHAD

Type	Announcement
Subject	MULTIPLE PROPOSALS
Description	ADVANCECON HOLDINGS BERHAD ("ADVANCECON" OR THE "COMPANY") I. PROPOSED ACQUISITION; AND II. PROPOSED DIVERSIFICATION (COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

On behalf of the Board of Directors of Advancecon ("Board"), UOB Kay Hian Securities (M) Sdn Bhd ("UOBKH") wishes to announce that Advancecon had on 17 June 2021 entered into the following agreements:-

- i. a conditional share sale agreement ("SSA") with Fook Hua Holdings Sdn Bhd ("FHHSB" or the "Vendor") for the proposed acquisition by Advancecon of 260,100,006 ordinary shares of Spring Energy Resources Berhad ("SERB"), representing 51% equity interest in SERB ("SERB Shares" or "Sale Shares"), for a total purchase consideration of RM30,400,000 ("Purchase Consideration") to be satisfied via a combination of cash payment of RM15,220,000 ("Cash Consideration") and the remaining purchase consideration of RM15,180,000 to be satisfied via an issuance and allotment of 33,000,000 new ordinary shares of Advancecon ("Advancecon Share(s)" or "Share(s)") ("Consideration Share(s)") at the issue price of RM0.46 per Consideration Share ("Proposed Acquisition"); and
- ii. a shareholders' agreement with FHHSB and SERB ("Shareholders' Agreement") to regulate the relationship of the shareholders and govern the management and operation of SERB between the shareholders of SERB upon completion of the Proposed Acquisition.

In conjunction with the Proposed Acquisition, Advancecon proposes to undertake a diversification of the existing principal activities of Advancecon and its subsidiaries ("Advancecon Group" or the "Group") to include quarry operation and other related activities ("Quarry Operation Business") ("Proposed Diversification").

(The Proposed Acquisition and Proposed Diversification are collectively referred to as the "Proposals")

Further details on the Proposals are set out in the attachment.

This announcement is dated 17 June 2021.

Please refer attachment below.

Attachments

[Advancecon Holdings Berhad_Proposals_final.pdf](#)
807.0 kB

Announcement INFO

Company Name	ADVANCECON HOLDINGS BERHAD
Stock Name	ADVCON
Date Announced	17 Jun 2021
Category	General Announcement for PLC
Reference Number	GA1-15062021-00099

ADVANCECON HOLDINGS BERHAD ("ADVANCECON " OR THE "COMPANY")

I. PROPOSED ACQUISITION; AND

II. PROPOSED DIVERSIFICATION

1. INTRODUCTION

On behalf of the Board of Directors of Advancecon ("**Board**"), UOB Kay Hian Securities (M) Sdn Bhd ("**UOBKH**") wishes to announce that Advancecon had on 17 June 2021 entered into the following agreements:-

- (i) a conditional share sale agreement ("**SSA**") with Fook Hua Holdings Sdn Bhd ("**FHHSB**" or the "**Vendor**") for the proposed acquisition by Advancecon of 260,100,006 ordinary shares of Spring Energy Resources Berhad ("**SERB**"), representing 51% equity interest in SERB ("**SERB Shares**" or "**Sale Shares**"), for a total purchase consideration of RM30,400,000 ("**Purchase Consideration**") to be satisfied via a combination of cash payment of RM15,220,000 ("**Cash Consideration**") and the remaining purchase consideration of RM15,180,000 to be satisfied via an issuance and allotment of 33,000,000 new ordinary shares of Advancecon ("**Advancecon Share(s)**" or "**Share(s)**") ("**Consideration Share(s)**") at the issue price of RM0.46 per Consideration Share ("**Proposed Acquisition**"); and
- (ii) a shareholders' agreement with FHHSB and SERB ("**Shareholders' Agreement**") to regulate the relationship of the shareholders and govern the management and operation of SERB between the shareholders of SERB upon completion of the Proposed Acquisition.

In conjunction with the Proposed Acquisition, Advancecon proposes to undertake a diversification of the existing principal activities of Advancecon and its subsidiaries ("**Advancecon Group**" or the "**Group**") to include quarry operation and other related activities ("**Quarry Operation Business**") ("**Proposed Diversification**").

(The Proposed Acquisition and Proposed Diversification are collectively referred to as the "**Proposals**")

Please refer to **Appendix I** and **Appendix II** of this announcement for the salient terms of the SSA and Shareholders' Agreement, respectively.

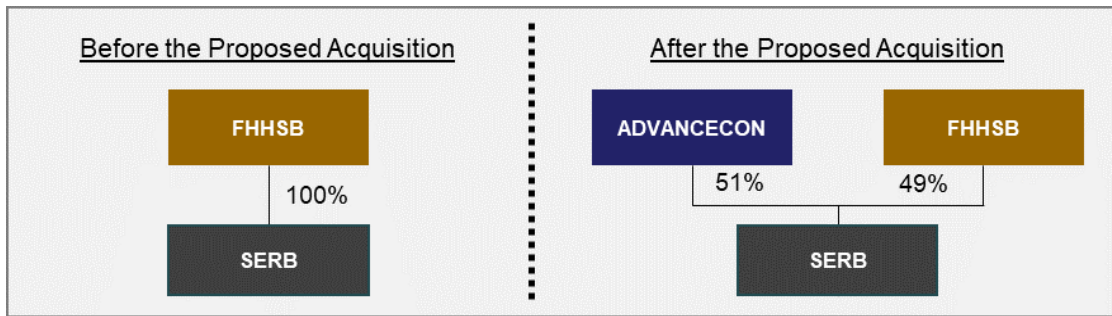
Further details of the Proposals are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED ACQUISITION

The Proposed Acquisition entails the acquisition by Advancecon of the Sale Shares, from the Vendor, for the Purchase Consideration of RM30,400,000 which shall be satisfied via a combination of Cash Consideration of RM15,220,000 and the remaining purchase consideration of RM15,180,000 to be satisfied via an issuance and allotment of 33,000,000 Consideration Shares at the issue price of RM0.46 per Consideration Share.

Pursuant to the SSA, Advancecon shall acquire a 51% equity interest in SERB. Subject to the terms and conditions of the SSA, the Sale Shares will be acquired free from all liens, charges and encumbrances and with full legal and beneficial title with all rights, benefits and advantages attaching thereto and on the basis of the warranties provided by the Vendor.

The structure of the Proposed Acquisition is depicted in the diagram below:-



Upon completion of the Proposed Acquisition, SERB will become a 51%-owned subsidiary company of Advancecon. Further details on SERB are set out in the ensuing sections of this announcement.

2.1 Information on SERB

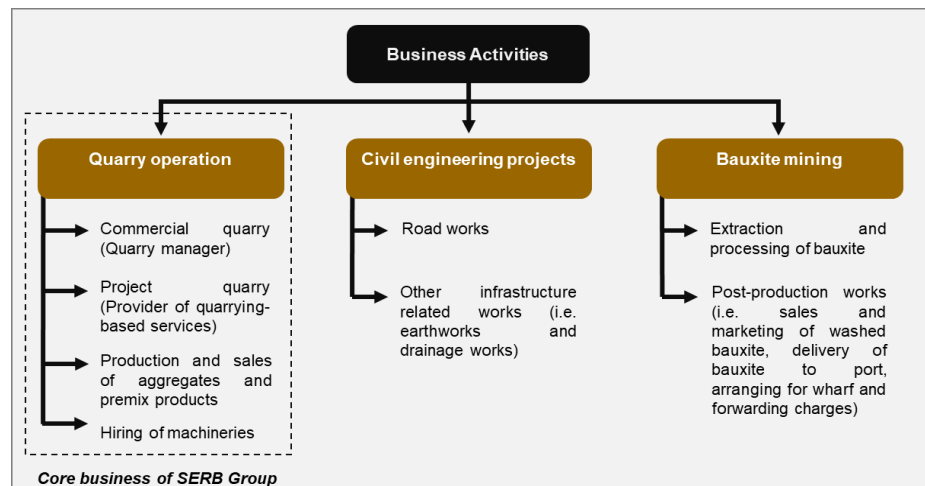
(i) Incorporation

SERB was incorporated on 16 May 2014 in Malaysia under the Companies Act, 1965 as a private limited company under the name of Spring Energy Resources Sdn Bhd. SERB was subsequently converted into a public limited company on 29 April 2015 and assumed the present name.

SERB and its subsidiaries ("**SERB Group**") commenced operations in 1997 pursuant to the incorporation of Spring Energy Sdn Bhd, the wholly-owned subsidiary of SERB, in Malaysia in September 1997. Spring Energy Sdn Bhd was established as a quarry operator specialising in rock crushing operation. Further details of SERB Group's principal activities are set out in the ensuing paragraphs.

(ii) Principal activity

SERB is principally engaged in the investment holding. Through its subsidiaries, SERB is principally engaged in contract quarry operation, quarry products, marketing, quarry management and advisory services. SERB Group's quarry operation business segment contributed approximately 52.3%, 83.7% and 94.0% of its total revenue for the past 3 financial years up to the financial year ended ("**FYE**") 31 December 2020. SERB Group also carries out civil engineering projects and bauxite mining (of which its bauxite mining operations is temporarily suspended and currently is only involved in bauxite trading activities). Further information on the business activities of SERB Group are set out below:-



SERB Group conducts its quarry operation (including marketing and sales of aggregates and premix products, and hiring of machineries), civil engineering projects and bauxite mining solely in Malaysia and that all of its customers are based in Malaysia. The revenue contribution of each of the business segment based on the audited consolidated financial statements of SERB Group for the past 4 financial years up to the FYE 31 December 2020 is set out below:-

Revenue by Business Segment	<-----Audited----->							
	FYE 31 December 2017		FYE 31 December 2018		FYE 31 December 2019		FYE 31 December 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Quarry operation	122,409	41.2	128,213	52.3	151,110	83.7	137,869	94.0
Civil engineering projects	135,802	45.7	116,563	47.5	24,733	13.7	4,103	2.8
Bauxite mining	38,417	12.9	-	-	2,172	1.2	3,450	2.4
Others	444	0.2	584	0.2	2,527	1.4	1,174	0.8
Total	297,072	100.0	245,360	100.0	180,542	100.0	146,596	100.0

As highlighted in the diagram above, SERB Group is primarily involved in quarry operation. The quarry operation segment is currently the largest revenue contributor to SERB Group since the FYE 31 December 2018. For the avoidance of doubt, SERB Group only acts as a quarry operator and provides integrated quarry operation management and services and does not own any quarry sites.

In a snapshot, SERB Group's quarry operation primarily begins with the upstream activity of open excavation at the quarry from which rock materials such as dimension stone (i.e. granite, limestone, etc.) and construction aggregates (i.e. sand, gravel, crushed rocks, etc.) are extracted. These rock materials outputs, commonly known as aggregates, are generally used as base materials for road construction. Aggregates are also component of composite materials used to produce construction premixes, which in turn also form base materials required for the building of houses and infrastructure such as roads and highways, utility structures and buildings, bridges and railways.

SERB Group's quarry operation as a whole is not only focused on commercial production and sales of aggregates and premix products, but comprises a wide range of activities and services including amongst others, removal of overburden, drilling and blasting, excavation, haulage, loading and transporting, crushing, processing, screening and stockpiling, and also sales and marketing of aggregates and premix products, particularly asphaltic concrete. SERB Group also has a sizeable fleet of various types of machineries for its operational use as well as those available for hire in the quarrying, construction and mining industries.

In addition to the quarry operation activities, SERB Group's business activities mainly include civil engineering projects and bauxite mining. For clarification purposes, as an integrated quarry operation management and service provider, SERB Group provides value-added civil engineering services including pavement, rehabilitation, extension, widening, drainage and other form of road works. They are registered with the Construction Industry Development Board as a G7 class contractor which allows them to tender for contracts of unlimited value.

Please refer to **Appendix III** of this announcement for further information on the business activities of SERB Group.

SERB Group's loss making position

As highlighted in **Section 2.1(i)** above, SERB Group commenced its operations in 1997 as a quarry operator specialising in rock crushing operation business. Over the years, SERB Group expanded its business activities from being a provider of integrated quarry operation management and services as well as production and sales of aggregates and premix products, into civil engineering services in 2001 and subsequently expanded into bauxite mining in 2014. SERB Group's expansion into the 2 business segment had initially provided additional stream of revenue and income that compliments its core business in quarry operation.

Notwithstanding the above, SERB Group's civil engineering business segment recorded significant decrease in revenue since the FYE 31 December 2019. During the FYE 31 December 2019, SERB Group encountered difficulties in collecting certified claims from the main contractor of the construction and completion of site clearance, earthworks and geotechnical works, drainage works and vehicular box culverts and reinforced soil wall as well as pavement works for an expressway in Malaysia ("**Highway Project**"). SERB Group had carried out construction work for the Highway Project since the commencement of the project in October 2016. However, SERB Group was not able to collect certain certified claims corresponding to the work performed for the Highway Project as a result of repeated breaches by the main contractor of its payment obligations to SERB Group. SERB Group has ceased all construction works on the Highway Project since the FYE 31 December 2019 and is currently pursuing legal recourse to recover the unpaid certified claims of SERB Group from the main contractor of the Highway Project. Accordingly, the collection issues for the Highway Project had a domino effect on SERB Group's segmental revenue performance from the civil engineering business segment in the FYE 31 December 2019 onwards.

Further, SERB Group's bauxite mining business segment which was profitable in the first 2 years of operations, had also been negatively affected by the imposition of moratorium on bauxite mining in Pahang by the Ministry of Natural Resources and Environment on 15 January 2016. Specifically, all bauxite mining activities of SERB Group had to be suspended and SERB Group was limited only to selling existing bauxite supply.

Despite the decrease in revenue contribution from the civil engineering and bauxite mining business segment, SERB Group continues to incur certain fixed operating expenses associated with the aforesaid 2 business segments such as depreciation expenses, upkeep of machineries and equipment, site staff salaries and rental charges, which eroded the total revenue recognised by SERB Group and resulting in its loss making position since the FYE 31 December 2017.

In view of the above, the management of SERB had decided to re-strategise their business plan to focus on growing SERB Group's core expertise (i.e. Quarry Operation Business) and reduced its participation in civil engineering projects. Further, SERB Group has suspended and terminated all its bauxite mining operations and currently is only involved in bauxite trading activities. Accordingly, SERB Group's current core business is in quarry operation.

For the avoidance of doubt, the Board takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020. As part of the Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, the Board and management of SERB have outlined several preliminary strategies to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability, further details as set out in **Appendix IV** of this announcement.

(iii) **Share capital**

As at 27 May 2021, being the latest practicable date of this announcement ("LPD"), SERB has an issued share capital of RM102,000,002 comprising 510,000,010 SERB Shares.

(iv) **Directors and substantial shareholders**

As at the LPD, the directors of SERB together with their respective shareholdings in SERB are as follows:-

Name	Nationality	<-----Direct----->		<-----Indirect----->	
		No. of SERB Shares	%*1	No. of SERB Shares	%*1
Dato' Yap Soon Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}
Yap Yee Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}
Yap Chai Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}
Yap Ho Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}

Notes:-

*1 Based on the total issued shares of 510,000,010 in SERB.

*2 Deemed interest pursuant to Section 8 of the Companies Act 2016 by virtue of his shareholding in FHHSB, which in turn holds 100.0% equity interest in SERB.

As at the LPD, the substantial shareholders of SERB together with their respective shareholdings in SERB are as follows:-

Name	Nationality/ Place of incorporation	<-----Direct----->		<-----Indirect----->	
		No. of SERB Shares	%*1	No. of SERB Shares	%*1
FHHSB	Malaysia	510,000,010	100.0	-	-
Dato' Yap Soon Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}
Yap Yee Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}
Yap Chai Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}
Yap Ho Huat	Malaysian	-	-	510,000,010	100.0 ^{*2}

Notes:-

*1 Based on the total issued shares of 510,000,010 in SERB.

*2 Deemed interest pursuant to Section 8 of the Companies Act 2016 by virtue of his shareholding in FHHSB, which in turn holds 100.0% equity interest in SERB.

(v) **Subsidiary and associate company**

As at the LPD, the details of the subsidiaries of SERB are as follows:-

Company	Date/ place of incorporation	Equity interest held %	Issued share capital (RM)	Principal activities
Spring Energy Sdn Bhd	10 September 1997 Malaysia	100.0	22,200,000	Quarry operator and contractor in civil engineering works
SE Premix Sdn Bhd	11 December 2002 Malaysia	100.0	750,001	Supply of labour and premix plants for the production of premix products

Company	Date/ place of incorporation	Equity interest held %	Issued share capital (RM)	Principal activities
Semenyih Quarry Sdn Bhd	1 November 1994 Malaysia	60.0	6,000,000	Quarry operator
SE Satu Sdn Bhd	16 August 2013 Malaysia	51.0	7,081,633	Bauxite mining operator and contractor in civil engineering works
SE Sinaran Sdn Bhd	9 April 2015 Malaysia	40.8	10	Dormant
SE Quarry Sdn Bhd	6 April 2016 Malaysia	55.0	100	Quarry operator
Spring Energy Construction Sdn Bhd	16 August 2017 Malaysia	100.0	10	Dormant
Spring Energy Mining Sdn Bhd	16 August 2017 Malaysia	100.0	10	Mining operator
Bukit Tinggi Infra Sdn Bhd	20 September 2018 Malaysia	51.0	100	Mining and quarry operator
Semenyih Rock Sdn Bhd	16 January 2019 Malaysia	60.0	250,010	Mining and quarry operator

As at the LPD, the details of the associated company of SERB are as follows:-

Company	Date/ place of incorporation	Equity interest held %	Issued share capital (RM)	Principal activities
SE Endau Sdn Bhd	4 March 2015 Malaysia	50.0	2	Investment holding

(vi) Summary of financial information

A summary of the audited consolidated financial information of SERB Group for the past 4 financial years up to the FYE 31 December 2020 is set out below:-

	-----Audited----->			
	FYE 31 December 2017 RM'000	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000
Revenue	297,072	245,360	180,542	146,596
Gross Profit/ (Loss) (" GP/GL ")	37,682	22,716	7,632	(8,852)
Loss before taxation (" LBT ")	(352)	(1,960)	(6,989)	(106,422)
Loss after taxation (" LAT ")	(1,225)	(3,600)	(3,757)	(100,505)

	-----Audited----->			
	FYE 31 December 2017 RM'000	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000
LAT attributable to the owners of the company	(1,954)	(604)	(486)	(96,806)
Shareholders' funds / Net assets ("NA")	146,509	145,904	144,685	28,488
Total equity	170,353	168,753	158,696	38,800
Total borrowings	73,799	120,285	153,925	149,004
Total issued shares (number)	510,000,010	510,000,010	510,000,010	510,000,010
Current Assets	150,738	184,007	200,852	96,070
Current Liabilities	112,011	135,360	161,535	168,943
Cash and bank balances	13,531	12,010	10,556	7,218
GP margin (%)	12.7	9.3	4.2	(6.0)
LBT margin (%)	(0.1)	(0.8)	(3.9)	(72.6)
LAT margin (%)	(0.4)	(1.5)	(2.1)	(68.6)
Net Earnings per share ("EPS") (sen)	(0.38)	(0.12)	(0.10)	(18.98)
NA per share (RM)	0.29	0.29	0.28	0.06
Current Ratio	1.35	1.36	1.24	0.57
Gearing (times)	0.43	0.71	0.97	3.84

Commentary on past financial performance:-

For shareholders' information purpose, over the past 4 financial years up to the FYE 31 December 2020, SERB had adopted the Malaysian Financial Reporting Standard to prepare for its consolidated financial statements, which were audited by Folks DFK & Co.

For the FYE 31 December 2017 to FYE 31 December 2020:-

- (i) There was no exceptional or extraordinary items;
- (ii) There are no accounting policies adopted by SERB which is peculiar to SERB due to the nature of its business and the industry in which it is involved in; and
- (iii) SERB's external auditors have not issued any audit qualification on the audited consolidated financial statements for the past 4 financial years up to the FYE 31 December 2020.

FYE 31 December 2017

For the FYE 31 December 2017, the revenue of SERB Group increased by approximately RM53.80 million or approximately 22.1% from approximately RM243.27 million during the preceding year of FYE 31 December 2016 to approximately RM297.07 million. This higher revenue was mainly due to increase in revenue from the civil engineering projects business segment mainly attributable to revenue contribution of RM83.34 million from the Highway Project which commenced work in October 2016.

For the FYE 31 December 2017, SERB Group recorded LBT of RM0.35 million for the FYE 31 March 2018 as compared to profit before tax of RM25.31 million for the preceding financial year. The LBT was mainly due to lower GP recorded for quarry operation and bauxite mining business segment. The decrease in GP from commercial quarry was mainly due to decrease in the average selling prices and quantity of premix products sold in the FYE 31 December 2017. The decrease in GP from bauxite mining business segment was mainly due to restricted mining activities as a result of the imposition of moratorium on bauxite mining in Pahang by the Ministry of Natural Resources and Environment on 15 January 2016.

FYE 31 December 2018

For the FYE 31 December 2018, the revenue of SERB Group decreased by approximately RM51.71 million or approximately 17.4% from approximately RM297.07 million during the preceding year of FYE 31 December 2017 to approximately RM245.36 million. This lower revenue was mainly due to the absence of revenue from the bauxite mining business segment mainly attributable to the moratorium imposed as highlighted above.

For the FYE 31 December 2018, higher LBT was recorded by approximately RM1.61 million from approximately RM0.35 million from the preceding financial year to approximately RM1.96 million during FYE 31 December 2018 mainly attributable to the lower GP contribution from bauxite mining business segment which was in tandem with the absence of revenue from the said business segment.

FYE 31 December 2019

For the FYE 31 December 2019, the revenue of SERB Group decreased by approximately RM64.82 million or approximately 26.4% from approximately RM245.36 million during the preceding year of FYE 31 December 2018 to approximately RM180.54 million. This lower revenue was mainly due to the decrease in revenue from the civil engineering projects business segment as a result of collection issues for the Highway Project. SERB Group has ceased all construction works on the Highway Project since the FYE 31 December 2019 and is currently pursuing legal recourse to recover the unpaid certified claims of SERB Group from the main contractor of the Highway Project. The Highway Project contributed only RM17.78 million to SERB Group's revenue in FYE 31 December 2019 as compared to RM100.04 million in the preceding financial year.

The LBT increased by approximately RM5.03 million from approximately RM1.96 million during the preceding financial year to approximately RM6.99 million during FYE 31 December 2019 mainly attributable to the lower GP contribution from civil engineering projects business segment which was in tandem with the decrease in revenue.

FYE 31 December 2020

For the FYE 31 December 2020, the revenue of SERB Group decreased by approximately RM33.94 million or approximately 18.8% from approximately RM180.54 million during the preceding year of FYE 31 December 2019 to approximately RM146.60 million. This lower revenue was mainly due to the decrease in revenue from the quarry operation business segment as a result of the outbreak of coronavirus disease 2019 ("**COVID-19**"). As a result of the outbreak of COVID-19, SERB Group was temporarily required to suspend most of the quarry operation activities from 18 March 2020 up until 3 May 2020 and only resumed operations progressively from 4 May 2020 onwards. As a result, SERB Group had recognised lower revenue in the month of March 2020 to May 2020, thereby contributing to lower revenue to be recognised in the FYE 31 December 2020 as compared to the preceding financial year.

The LBT increased by approximately RM99.43 million from approximately RM6.99 million during the preceding financial year to approximately RM106.42 million during FYE 31 December 2020 mainly attributable to an one-off impairment of approximately RM67.50 million made in the FYE 31 December 2020 for the uncertainty of recoverability of the unpaid certified claims of SERB against the main contractor of the Highway Project as well as the lower GP contribution from quarry operation business segment which was in tandem with the decrease in revenue.

Throughout the past 4 financial years up to the FYE 31 December 2020, SERB Group recorded LAT of approximately RM1.23 million, RM3.60 million, RM3.76 million and RM100.51 million, respectively. SERB Group's loss making position was mainly attributable to its decreasing revenue contribution from the civil engineering and bauxite mining business segments. The decrease in revenue from the civil engineering segment was mainly due to collection issues for the Highway Project and SERB Group has ceased all construction works on the Highway Project since the FYE 31 December 2019. The decrease in revenue from the bauxite mining business segment was due to the imposition of moratorium on bauxite mining in Pahang by the Ministry of Natural Resources and Environment on 15 January 2016, which resulted in all bauxite mining activities of SERB Group had to be suspended and SERB Group was limited only to selling existing bauxite supply.

Despite the decrease in revenue contribution from the civil engineering and bauxite mining business segment, SERB Group continues to incur certain fixed operating expenses associated with the aforesaid 2 business segments such as depreciation expenses, upkeep of machineries and equipment, site staff salaries and rental charges, which eroded the total revenue recognised by SERB Group and resulting in its loss making position since the FYE 31 December 2017.

2.2 Basis and justification of arriving at the Purchase Consideration

The purchase consideration of RM30,400,000 was arrived at, on a willing-buyer willing-seller basis, after taking into consideration the following:-

- i. the total profit guarantee of RM12,000,000 ("**Total Profit Guarantee**") provided by the Vendor to Advancecon for 2 financial years of FYE 31 December 2022 and FYE 31 December 2023 of SERB, which translates to a profit guarantee of RM6,000,000 per financial year (RM3,060,000 per financial year attributable to Advancecon based on 51% equity interest to be acquired).

The total profit attributable to Advancecon is RM6,120,000, which translates to a yearly profit guarantee of RM3,060,000 for each of the aforesaid financial years ("**Yearly Profit Guarantee**"), calculated based on 51% equity interest of SERB to be acquired by Advancecon. Therefore, the Purchase Consideration (i.e RM30,400,000) represents a price-to-earnings multiple ("**PE**") of 9.93 times based on the Yearly Profit Guarantee attributable to Advancecon (i.e. RM3,060,000).

In the event there are circumstance(s) materially and adversely affecting the economy of Malaysia beyond the reasonable control of the Vendor and/or SERB as a result of a prolonged mandatory movement control order(s) issued by the Malaysian Government ("**MCO**") thereby restricting the businesses of the SERB Group ("**Adverse Event**"), the above profit guarantee period shall be further automatically extended for a further 24 months ending 31 December 2025 if the Total Profit Guarantee amount has not yet been met as at 31 December 2023. Further details of the Adverse Event and the right of recourse in the event the profit guarantee is not met are set out in **Appendix I** of this announcement.

In the event there is no PAT or SERB has cumulative consolidated losses after tax, the Shortfall To Purchaser shall be deemed RM6,120,000.00 *plus* 51% of such cumulative consolidated LAT for the Profit Guarantee Period. Purely as illustration, where there is a LAT for the Profit Guarantee Period of RM2,000,000.00, the total Shortfall To Purchaser is RM7,140,000.00.

The Board is of the opinion that the Total Profit Guarantee is realistic, after taking into consideration the following factors:-

- a. the future prospects of SERB and the enlarged Advancecon Group (by the inclusion of SERB as an subsidiary company) as set out in **Section 5.3** of this announcement;
- b. the outlook of the construction industry as set out in **Section 5.2** of this announcement;
- ii. the rationale and benefits of the Proposed Acquisition as set out in **Section 4.1** of this announcement; and
- iii. the steps to be taken together by the Board and SERB's management to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability as set out in **Appendix IV** of this announcement

To further justify the Purchase Consideration, peer analysis has been carried out to benchmark the PE multiple implied by the Purchase Consideration against the PE multiple of comparable companies in similar industry and/ or business activities as SERB to substantiate the reasonableness of the Purchase Consideration.

The brief description on the earnings multiple method of valuation is set out below for shareholders' information purpose only:-

Valuation multiple	General description
PE	<p>PE multiple is the measure of the market price of a company's shares relative to its annual net income of the company per share.</p> <p>The computation of PE multiple is as follows:-</p>

$$\frac{\text{Price}_{\text{market}}}{\text{EPS}}$$

The earnings multiple method of valuation is considered the most appropriate method of valuation in ascribing the value of SERB premised on the grounds that SERB's operations is primarily in the Quarry Operation Business (i.e. upstream activity of quarry operation as well as the downstream activity of production and sales of aggregates and premix products) and the Total Profit Guarantee provided by the Vendor to Advancecon.

However, there is no public listed company in Malaysia which is identical to SERB in respect of, amongst others, the principal activities of quarry operation, the composition of business activities, geographical markets, scale of business operations and financial positions. Premised on the foregoing and for the purpose of evaluating the Purchase Consideration, the comparable companies were selected mainly with reference to the substantial similarity of the functional activities to SERB, which is involved in the provision of construction materials to construction companies and are currently listed on Bursa Malaysia Securities Berhad ("**Bursa Securities**"). Such selection is premised on the fact that the business activities of SERB is also considered as primarily involved in the provision of construction materials to construction companies.

Based on the aforesaid criteria, we noted that high numbers of companies which are primarily involved in the provision of construction materials to construction companies were suffering losses after taxation during the respective latest audited financial years. In view of the above, such companies were disregarded and the comparable companies are selected based on net profits recorded during the latest audited financial year, and that such net profits recorded were mainly contributed by the provision of construction materials to construction companies related business activities to provide a meaningful comparable valuation statistics.

Nevertheless, it should be noted that this comparable valuation statistics is carried out on a best effort basis, purely to provide an indicative benchmark valuation of the Purchase Consideration as there is no direct peer comparable to SERB which is currently a public listed company listed on Bursa Securities.

The valuation of SERB is calculated as follows:-

PE multiple

		RM
Purchase Consideration (assuming 51.0% equity value of SERB as implied by the Purchase Consideration)	A	30,400,000
Profit guarantee (assuming 51.0% equity value of SERB as implied by the Yearly Profit Guarantee provided by the Vendor)	B	3,060,000
Total issued shares of SERB (number)	C	510,000,010
Purchase Consideration per SERB Share (sen)	A/C = D	5.96
EPS (Calculated based on the profit guarantee of RM3.06 million per SERB Share) (sen)	B/C = E	0.60
PE (times)	<u>D/E</u>	<u>9.93</u>

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The valuation statistics of the comparable companies using PE multiple are set out below:-

Company	Principal activities	Latest FYE	Last Price* ¹ RM	Market Capitalisation* ¹ RM'mil	PAT RM'mil	EPS sen	PE* ² (times)	Adjusted PE* ³ (times)
DKLS Industries Berhad	Construction, manufacturing, supply and sale of quarry products, ready-mix concrete and asphaltic concrete (premix), property development, utilities and others	31 December 2020	3.00	278.10	13.02	14.05	21.36	16.02
Chin Hin Group Berhad	Distribution of building materials, manufacturing of AAC and precast concrete products, ready mixed concrete and others	31 December 2020	1.20	1,001.05	21.26	3.87	30.99	23.25
Oka Corporation Berhad	Manufacturing and sale of pre-cast concrete products and trading of ready mixed concrete	31 March 2020	0.755	185.27	11.30	4.60	16.40	12.30
							Low	12.30
							High	23.25
							Simple Average	17.19
							SERB	9.93

(Source: Bloomberg and the audited financial statements of the respective companies)

Notes:-

*¹ Being the last traded price as at the LPD

The market capitalisation of the comparable companies was calculated based on the last traded price as at the LPD multiplied with the total number of outstanding shares of the respective comparable companies as at the LPD

*² PE is computed based on last price over EPS

*³ The PE multiple has been discounted by 25.0% to adjust for the non-marketability and discount factors of SERB Shares as it is not traded on any stock exchange and the size of SERB is smaller to that of comparable companies. As the public listed companies have to comply with the public shareholding spread requirement of 25.0%, we have adopted 25.0% as the discount factor to adopt for the PE of comparable companies. Nevertheless, the adjusted PE is purely an illustration for shareholders' information only.

The earnings multiple is commonly used to estimate the value of the business. It indicates the market value of a company's shares relative to its annual earnings recorded by the company.

Based on the valuation statistics above, the PE multiple of SERB implied by the Purchase Consideration of 9.93 times is below the range of the Adjusted PE multiple of 12.30 times and 23.25 times accorded to the comparable companies and is lower than the simple adjusted average of 17.19 times accorded to the comparable companies. As such, the value implied by the Purchase Consideration from an earnings standpoint is deemed reasonable to Advancecon pursuant to the Proposed Acquisition as well as the potential earnings of SERB moving forward.

Pursuant to the above, the Purchase Consideration is deemed reasonable premised on the valuation statistics of the comparable companies as well as taking into consideration the historical financial performance and future prospects of SERB and the enlarged Advancecon Group as set out in **Sections 2.1** and **5.3** of the announcement, respectively.

2.3 Basis and justification of arriving at the Issue Price of Consideration Shares

The issue price of the Consideration Shares of RM0.46 each was determined on a willing-buyer willing-seller basis, after taking into consideration the net tangible assets ("NTA") per share of Advancecon of RM0.46 based on the audited consolidated NTA of Advancecon of RM187,560,712 in the FYE 31 December 2020 and the total issued share capital of 405,075,000 as at 31 December 2020.

The issue price of the Consideration Shares of RM0.46 also represents a premium of approximately RM0.085 or approximately 22.67% to the 5-day VWAP of Advancecon Shares up to and including 16 June 2021, being the last market date immediately preceding the date of SSA of RM0.375. For information purposes, the Issue Price represents a premium to the following VWAPs as follows:

	Share price RM	Premium RM	%
Last transacted price as at 16 June 2021	0.385	0.075	19.48
5-day VWAP of Shares up to and including 16 June 2021	0.375	0.085	22.67
1-month VWAP of Shares up to and including 16 June 2021	0.376	0.084	22.34
3-month VWAP of Shares up to and including 16 June 2021	0.415	0.045	10.84
6-month VWAP of Shares up to and including 16 June 2021	0.405	0.055	13.58
12-month VWAP of Shares up to and including 16 June 2021	0.392	0.068	17.35

(Source: Bloomberg)

Based on the above, the Issue Price represents a premium ranging from approximately 10.84% to approximately 22.67% over the last transacted price as at 16 June 2021, 5-day VWAP, 1-month VWAP, 3-month VWAP, 6-month VWAP and 12-month VWAP up to and including 16 June 2021, being the last market date prior to the date of the SSA.

2.4 Ranking of Consideration Shares

The Consideration Shares shall, upon allotment and issuance, rank *pari passu* in all respects with each other and with the existing Advancecon Shares, save and except that the holder of the Consideration Shares shall not be entitled to participate in any dividends, rights, allotment and/ or other distributions which are declared, made or paid to the shareholders of Advancecon for which the entitlement date for the said distributions precedes the date of allotment and issuance of the Consideration Shares.

2.5 Listing of Consideration Shares

An application will be made to Bursa Securities for the listing of and quotation for the Consideration Shares to be issued pursuant to the Proposed Acquisition on the Main Market of Bursa Securities.

2.6 Mode of Settlement of the Purchase Consideration

Pursuant to the terms of the SSA, the mode of settlement of the Purchase Consideration comprises Cash Consideration and Consideration Shares which shall be satisfied on the Completion Date (as defined below) in the following manner:-

Payment terms	Timing	RM	%
Cash Consideration	On signing of the SSA	3,040,000	10.0
Cash Consideration	Payable on a date falling within 30 days the last of the conditions precedent of the SSA (" Conditions Precedent ") is satisfied or such other date as the parties of the SSA may agree in writing (" Completion Date "). Where the Vendor and Advancecon are unable to agree on the Completion Date, the Completion Date shall fall on the thirtieth (30 th) day after the date the last of the Conditions Precedent is satisfied.	12,180,000	40.1
Issuance of 33,000,000 Consideration Shares at RM0.46 per Consideration Share	On the Completion Date	15,180,000	49.9
Total		30,400,000	100.0

2.7 Source of funding for the Purchase Consideration

The Purchase Consideration will be satisfied via a combination of Cash Consideration and the issuance and allotment of Consideration Shares. The Cash Consideration shall be financed via a combination of internally generated funds of Advancecon and bank borrowings, the exact quantum of which will be determined by the Board at a later date upon obtaining all the necessary approvals.

Based on internal preliminary discussion and purely for illustration purposes, the indicative quantum of the funding is set out below:-

	RM	%
Internally generated fund	3,040,000	10.0
Bank borrowings	12,180,000	90.0
Total	15,220,000	100.0

2.8 Liabilities to be assumed by Advancecon

Save for the obligation and liabilities in and arising from, pursuant to or in connection with the SSA for the Proposed Acquisition, there is no other liabilities including contingent liabilities and/ or guarantees to be assumed by Advancecon arising from the Proposed Acquisition.

2.9 Additional financial commitment required

Save for the Purchase Consideration, there is no additional financial commitment required by Advancecon to put the business of SERB on-stream as it is an on-going business entity with operation.

Notwithstanding that and upon completion of the Proposed Acquisition, both Advancecon and the Vendor agrees that they shall collectively advance to SERB as shareholders' advance the total sum of up to RM20.00 million proportionately to their shareholding in SERB ("**Shareholders' Advance**") as follows:

Company	Shareholders' Advance (Up to) RM	%
Advancecon	10,200,000	50.1
Vendor	9,800,000	49.9
Total	20,000,000	100.0

The Shareholders' Advances shall be utilised for working capital requirements of the SERB Group in the manner approved by the Board of Directors of SERB from time to time; provided that, the Vendor's advance of up to RM9.80 million shall not be utilised towards repayment of any other advances made by any shareholder or director of SERB Group or persons connected to them.

2.10 Information on the Vendor

FHHSB was incorporated on 7 June 1996 in Malaysia under the Companies Act, 1965 as private company limited by shares. FHHSB is principally an investment holding company.

As at the LPD, FHHSB has an issued share capital of RM1,000,040 comprising 1,000,040 shares.

As at the LPD, the directors of FHHSB together with their respective shareholdings in FHHSB are as follows:-

Name	Nationality	<-----Direct----->		<-----Indirect----->	
		No. of shares	% ^{*1}	No. of shares	% ^{*1}
Dato' Yap Soon Huat	Malaysian	225,008	22.5	-	-
Yap Yee Huat	Malaysian	225,009	22.5	-	-
Yap Chai Huat	Malaysian	225,009	22.5	-	-
Yap Ho Huat	Malaysian	225,009	22.5	-	-

Note:-

^{*1} Based on the total issued shares of 1,000,040 in FHHSB.

As at the LPD, the substantial shareholders of FHHSB together with their respective shareholdings in FHHSB are as follows:-

Name	Nationality	<-----Direct----->		<-----Indirect----->	
		No. of shares	% ^{*1}	No. of shares	% ^{*1}
Dato' Yap Soon Huat	Malaysian	225,008	22.5	-	-
Yap Yee Huat	Malaysian	225,009	22.5	-	-
Yap Chai Huat	Malaysian	225,009	22.5	-	-
Yap Ho Huat	Malaysian	225,009	22.5	-	-
Oh Ah Ban	Malaysian	100,004	10.0	-	-

Note:-

^{*1} Based on the total issued shares of 1,000,040 in FHHSB.

3. PROPOSED DIVERSIFICATION

As at the LPD, Advancecon Group is involved in the provision of earthworks and civil engineering services, primarily for township developments and infrastructure projects in Malaysia. Advancecon Group undertakes a wide range of earthworks services encompass excavation and fill, rock-blasting, erosion and sediment control plan, as well as compaction and surface finishing process. In addition, Advancecon Group also undertakes civil engineering services such as road works, drainage works, bridge construction, water supply works and sewerage works. Furthermore, Advancecon Group is also involved in the provision of support services such as sale of construction materials, hiring of machinery and ad hoc general construction services/ daywork, green energy as well as property investment.

The key financial performance of Advancecon Group for the past 3 financial years up to the FYE 31 December 2020 and the 3-month unaudited financial period ended ("FPE") 31 March 2021 are as follows:-

	<-----Audited----->			<---Unaudited--->
	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	3-month FPE 31 March 2021 RM'000
Revenue	272,860	302,337	250,336	65,077
PAT	10,618	10,825	2,101	1,081

In addition, a summary of Advancecon Group's revenue based on the existing operating segments for the past 3 financial years up to the FYE 31 December 2020 and the 3-month unaudited FPE 31 March 2021 are as follows:-

	<-----Audited----->						<---Unaudited--->	
	FYE 31 December 2018		FYE 31 December 2019		FYE 31 December 2020		3-month FPE 31 March 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<u>Earthworks & civil engineering services</u>								
Contract revenue	249,256	91.35	276,527	91.46	234,832	93.80	61,087	93.87
<u>Support services</u>								
Sale of goods	19,474	7.14	22,988	7.60	10,776	4.30	1,503	2.31
Hiring of machinery	1,272	0.47	1,334	0.44	1,295	0.52	238	0.37
Day work revenue	2,513	0.92	845	0.28	1,052	0.42	676	1.04
<u>Property investments</u>								
Rental income	344	0.12	642	0.22	489	0.20	149	0.23
Green Energy	-	-	-	-	1,875	0.75	1,420	2.18
<u>Others</u>								
Cabin living quarters rental	1	- ¹	1	- ¹	16	0.01	4	- ¹

Note:-

¹ Negligible.

Based on the table above, Advancecon Group has recorded steady increase in terms of revenue generated for the financial years/ period under review, out of which more than 90% of the revenue is derived from Advancecon Group's earthworks and civil engineering services. Given that SERB Group is primarily involved in the upstream activity of quarry operation as well as the downstream activity of production and sales of aggregates and premix products, the Proposed Acquisition serves to compliment Advancecon Group's core business in earthworks and civil engineering services, enabling Advancecon Group to utilise the quarry products from SERB Group for its earthworks and road-based infrastructure construction activities.

For the avoidance of doubt, the Board takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020. As part of the Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, the Board and management of SERB have outlined several preliminary strategies to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability, further details as set out in **Appendix IV** of this announcement.

Pursuant to the Proposed Acquisition, SERB will become a 51%-owned subsidiary company of Advancecon. The business of the enlarged Advancecon Group will include the Quarry Operation Business and is expected to increase and diversify Advancecon Group's earnings premised on the Total Profit Guarantee provided by the Vendor to Advancecon for a period of 2 financial years of FYE 31 December 2022 and FYE 31 December 2023 of SERB, of which the total profit attributable to Advancecon is RM6,120,000 as well as the future prospects of SERB, as set out in **Section 5.3** of this announcement.

Based on the above, the Board anticipates that, barring any unforeseen circumstances, the new Quarry Operation Business may contribute 25% or more of the net profits of Advancecon Group or cause a diversion of 25% or more of the NA of Advancecon Group moving forward. As such, the Board proposes to seek the approval of shareholders of Advancecon for the Proposed Diversification pursuant to Rule 10.13(1) of the Main Market Listing Requirements of Bursa Securities ("**Listing Requirements**"). Notwithstanding the Proposed Diversification, Advancecon Group will continue with its existing businesses in the same manner.

Key management personnel

Premise on the Quarry Operation Business that Advancecon Group intends to venture into, Advancecon Group has identified its existing key personnel, namely Ir. Yeo An Thai, the Chief Operating Officer as the key individual to lead and oversee the long term business expansion and strategic planning of SERB Group and the enlarged Advancecon Group. Ir. Yeo An Thai will be responsible for overseeing long term business expansion and strategic planning of the SERB Group and the enlarged Advancecon Group. For the avoidance of doubt, Ir. Yeo An Thai's involvement in the quarry operation business activities will not affect the discharge of his duty as the Chief Operating Officer of Advancecon Group. It will be an additional role to be undertaken by him and he will be supported by the finance team in Advancecon Group in overseeing the financial functions of SERB Group as well as by Dato' Yap Soon Huat, who is currently the Group Managing Director of SERB Group, and his current management team.

On the other hand, Dato' Yap Soon Huat will continue with his existing responsibilities in managing the day-to-day operations of SERB Group. He will be assisted by his current management team in SERB Group.

Further details of the qualification and experience of the key management personnel in charge of the Quarry Operation Business are set out below:-

- i. **Ir. Yeo An Thai** (Male), a Malaysian aged 49, is the Chief Operating Officer of Advancecon Group. He was appointed to the Board on 1 August 2016. He is responsible for the overall operations of Advancecon Group which include decision making on corporate affairs and managing site technical operational activities of Advancecon Group. He has approximately 24 years of working experience in the construction industry.

He graduated with a Bachelor of Engineering with Honours Degree in Civil and Structural Engineering from Universiti Kebangsaan Malaysia in 1997 and subsequently obtained a Master of Engineering Management from Universiti Putra Malaysia in 2015. He is a registered Project Management Professional with the Project Management Institute, United States since 2009, a member of the Institution of Engineers, Malaysia and a registered Professional Engineer with the Board of Engineers, Malaysia since 2013. In 2014, he registered as a Green Building Index Facilitator with Green Building Index, Malaysia.

He began his career as Site Engineer in Gamuda Berhad in 1997 and was later promoted to Section Head in 2001, where he was assigned to manage several highway projects undertaken by Gamuda Berhad. In 2001, he left Gamuda Berhad and joined Advancecon Sdn Bhd as Site Manager where he was responsible for day-to-day on site operations of all the construction projects. In 2010, Advancecon Group was established pursuant to an internal reorganization exercise undertaken whereby he assumed the role of General Manager of Project Management before he was promoted to Chief Operating Officer in 2015.

Ir. Yeo An Thai has no family relationship with any director and/ or major shareholder of Advancecon Group.

- ii. **Dato' Yap Soon Huat** (Male), a Malaysian aged 63, is the Group Managing Director of SERB Group. He was appointed to the Board of Directors of SERB Group on 30 April 2015. He is responsible for the overall strategic management and decision making on corporate affairs and operations of SERB Group. He has approximately 47 years of working experience in quarrying and civil construction industry. He partially completed his secondary education at Victoria Institution in the state of Kuala Lumpur in 1974.

He started his career in 1974 as a road work contractor while assisting his father to set up Soon Huat & Co. He oversaw the overall site management and maintenance of machineries. Soon Huat & Co was subsequently incorporated as a private limited company in January 1983 under the name of Fook Hua Trading (Pahang) Sdn Bhd and later changed its name to Dunia Epik Sdn Bhd of which mainly involved in earthwork and drainage work, civil construction and building works where he was a co-founder and director. He was also the co-founder of Magna Prima Construction Sdn Bhd (formerly known as Fook Hua Construction Sdn Bhd) in July 1989 of which mainly involved in provision of crushing services, professional turnkey quarry services (i.e. encompassing quarry operation services provided to landowner to necessitate the onward supply of aggregates to the particular landowner at contracted prices) and other civil engineering related works.

Both Dunia Epik Sdn Bhd and Magna Prima Construction Sdn Bhd became the wholly-owned subsidiary companies of Magna Prima Bhd in 1996 where he was appointed as the Executive Director of Magna Prima Bhd where he was responsible for the construction projects especially in earthwork and rock crushing in Dunia Epik Sdn Bhd and Magna Prima Construction Sdn Bhd and Magna Prima Bhd was later listed in Bursa Securities in 1997. He subsequently resigned from Magna Prima Bhd in 2001 and focused in his business in FHHSB in exploring the quarrying and construction business since then. He joined Spring Energy Sdn Bhd as the Managing Director in 2004 where he later acquired the entire equity interest in Spring Energy Sdn Bhd in 2004 via his equity investment holding company, namely FHHSB.

He holds several responsibilities within the Malaysia Quarries Association ("**MQA**") since 2013. He is currently the President of MQA and the Honorary Chairman of MQA's Selangor/ Kuala Lumpur Branch.

Dato' Yap Soon Huat has no family relationship with any director and/ or major shareholder of Advancecon Group.

For the avoidance of doubt, Advancecon Group does not have any intention to further recruit additional manpower to undertake the Quarry Operation Business at this juncture, given that the SERB Group is an ongoing business entity led by Dato' Yap Soon Huat and his current management team in SERB Group. As highlighted above, Ir. Yeo An Thai will be responsible for overseeing long term business expansion and strategic planning of the SERB Group and he will be assisted by the finance team in Advancecon Group in overseeing the financial functions of SERB Group. Accordingly, the enlarged Advancecon Group pursuant to the Proposed Acquisition will have the capacity, capability and resources to diversify into Quarry Operation Business. Premised on the above, the Board is of the view that the Proposed Diversification provides Advancecon Group with additional stable streams of revenue and cash flow upon the completion of the Proposed Acquisition. Notwithstanding the Proposed Diversification, the Board intends to continue with Advancecon Group's existing principal activities in the same manner and the Board will review Advancecon Group's business operations from time to time with the intention to further improve Advancecon Group's financial performance.

4. RATIONALE AND JUSTIFICATION FOR THE PROPOSALS

4.1 Proposed Acquisition

As highlighted in **Section 3** of this announcement, Advancecon Group is involved in the provision of earthworks and civil engineering services, primarily for township developments and infrastructure projects in Malaysia.

On the other hand, SERB Group is mainly involved in Quarry Operation Business (i.e. the upstream activity of quarry operation as well as the downstream activity of production and sales of aggregates and premix products).

The Proposed Acquisition entails the acquisition by Advancecon of 51% equity interest in SERB. Upon successful completion of the Proposed Acquisition, Advancecon Group will get immediate access to SERB Group's Quarry Operation Business, enabling Advancecon Group to utilise the quarry products from SERB Group for its earthworks and road-based infrastructure construction activities. On top of internal usage, the enlarged Advancecon Group will be able to directly supply SERB Group's quarry products to Advancecon Group's subcontractors who work at the project sites, which is expected to reduce the risk of delay in delivery of materials and Advancecon Group will have better control over the supply of quarry products instead of relying on third party suppliers whom the Group may not be familiar with their quality of products/materials.

In the long run, the Proposed Acquisition is expected to improve the earnings of the enlarged Advancecon Group given that the Board and management of SERB have outlined a turnaround plan to improve SERB Group's earnings and overall operating structure. Upon the completion of the Proposals, the new Quarry Operation Business will potentially provide the Group with additional stream of revenue and contribute positively to the Group's future earnings. Further, the enlarged Advancecon Group is expected to have greater economies of scale due to the similar nature of construction activities between both companies, and the resultant lower overall costs of operations from the enlarged Advancecon Group is expected to help improve profitability of the enlarged Advancecon Group.

For the avoidance of doubt, SERB Group had over the past 4 financial years up to the FYE 31 December 2020, recorded LAT of approximately RM1.23 million, RM3.60 million, RM3.76 million and RM100.51 million, respectively. SERB's loss making position was mainly attributable to its decreasing revenue contribution from the civil engineering and bauxite mining business segments. The decrease in revenue from the civil engineering segment was mainly due to the collection issues for the Highway Project and SERB Group has ceased all construction works on the Highway Project since the FYE 31 December 2019.

The decrease in revenue from the bauxite mining business segment was due to the imposition of moratorium on bauxite mining in Pahang by the Ministry of Natural Resources and Environment on 15 January 2016, which resulted in all bauxite mining activities of SERB Group had to be suspended and SERB Group was limited only to selling existing bauxite supply.

Further commentary on the historical financial performance of SERB Group are set out in **Section 2.1(vi)** of this announcement.

The Board takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020. As part of the Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, the Board and management of SERB have outlined several preliminary strategies to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability, further details as set out in **Appendix IV** of this announcement.

The Board takes note that part of the Purchase Consideration is to be satisfied via the issuance of Consideration Shares to the Vendor. The partial settlement of the Purchase Consideration via the issuance of the Consideration Shares will allow Advancecon Group to conserve cash without any immediate impact on its cash flow as opposed to being fully settled in cash or via borrowings.

The Proposed Acquisition would also provide an additional income stream to Advancecon Group moving forward, premised on the Total Profit Guarantee provided by the Vendor to Advancecon for a period of 2 financial years of FYE 31 December 2022 and FYE 31 December 2023 of SERB, of which the total profit attributable to Advancecon is RM6,120,000 as well as the future prospects of SERB, as set out in **Section 5.3** of this announcement.

4.2 Proposed Diversification

At present, Advancecon Group is primarily involved in the provision of earthworks and civil engineering services, in which Advancecon Group's revenue is substantially derived from such activities.

In order to mitigate the reliance on the existing activities as well as to diversify and expand the earnings base moving forward, Advancecon Group has been continuously seeking opportunities to diversify into other viable businesses. In line with Advancecon Group's strategy, it has identified quarry operation business and related activities as a viable business to venture into, as further elaborated below.

As highlighted in **Section 5.2** of this announcement, the construction sector is expected to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects. The civil engineering subsector will continue to be the main driver of the construction sector.

(Source: Chapter 3, Macroeconomic Outlook, Economic Outlook 2021, Ministry of Finance)

In view of the expected recovery of the construction sector, the Proposed Diversification is expected to broaden and expand Advancecon Group's earnings base. Given the steps to be taken together by the Board and SERB's management to improve SERB Group's revenue and return SERB Group to profitability as illustrated in **Appendix IV** of this announcement, Advancecon's management remains cautiously optimistic of the long term prospects associated with the expansion of Advancecon Group to include Quarry Operation as part of Advancecon Group's business activities.

The Proposed Acquisition may result in Advancecon Group's new Quarry Operation Business to potentially contribute 25% or more of Advancecon Group's net profits or cause a diversion of 25% or more of the NA of Advancecon Group moving forward. In such an event, the implementation of the Proposed Diversification (including the Company obtaining shareholders' approval for the Proposed Diversification) would be necessary for Advancecon Group to carry out the Quarry Operation Business in compliance with the Listing Requirements.

Premised on the above, the Board is of the opinion that the Proposed Diversification provides Advancecon Group with additional stable stream of revenue and cash flow and is expected to augur well in the overall structure of Advancecon Group's existing business (i.e. construction and support services as well as property investment) moving forward and at the same time diversify Advancecon Group's existing business portfolios.

5. INDUSTRY OUTLOOK AND FUTURE PROSPECTS OF SERB AND THE ENLARGED ADVANCECON GROUP

5.1 Overview and outlook of the Malaysian 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 MCO 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%).

Domestic demand recorded a decline of 4.4% in the fourth quarter of 2020 (3Q 2020: -3.3%), mainly due to the subdued private consumption and public investment activities. Net exports grew by 12.4% (3Q 2020: 21.9%), with continued expansion in manufactured exports. Private consumption contracted by 3.4% (3Q 2020: -2.1%). Household spending was subdued amid continued weaknesses in income and employment conditions during the quarter. Spending was also affected by tighter movement restrictions in selected states. Nevertheless, the decline in physical spending was partly mitigated by the continued acceleration in online spending.

During the quarter, consumer expenditure also remained supported by various stimulus measures including the EPF i-Lestari withdrawals, the continued support to affected borrowers under the Targeted Repayment Assistance (TRA) and lower passenger car sales tax. Meanwhile, public consumption continued to expand, albeit at a more moderate pace of 2.7% in the fourth quarter of 2020 (3Q 2020: 6.9%), supported by spending in emoluments.

Gross fixed capital formation contracted further by 11.9% (3Q 2020: -11.6%), as capital spending from both private and public sectors remained relatively weak. By type of asset, investment in structures contracted by 13.1% (3Q 2020: -12.9) while investment in machinery & equipment declined by 9.0% during the quarter (3Q 2020: -8.3%). Private investment recorded a smaller decline of 7.0% (3Q 2020: -9.3%), mainly supported by continued capital spending in existing projects, particularly in the export-oriented industries. Meanwhile, public investment registered a larger decline of 19.8% (3Q 2020: -18.6%). This reflects lower spending on fixed assets by the general government and weaker demand in most sectors which continued to weigh on capital spending by public corporations.

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

The Malaysian economy experienced the full impact of the COVID-19 pandemic in the second quarter of 2020, with the real gross domestic product ("**GDP**") contracting by 17.1%. The contraction was mainly attributed to the imposition of the MCO to contain the outbreak. Though affecting all sectors in the economy, the move was necessary to flatten the COVID-19 curve and save lives. Hence, the Government has announced several stimulus packages totalling RM305 billion to support both households and businesses. 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 GDP is expected to contract by 4.5% in 2020, before rebounding between 6.5% and 7.5% in 2021. With the bold and swift measures undertaken Malaysia has been recognised as one of the most successful countries in managing the socio-economic impact of the pandemic.

Domestic demand is expected to contract by 3% in 2020, with private and public sectors' spending declining by 3.2% and 2.1%, respectively. In the first half of 2020, domestic demand declined significantly by 7.7%, amid restricted movements to contain the COVID-19 pandemic. Nevertheless, the announcement of various stimulus packages and the gradual resumption of economic activities are expected to restore business and consumer confidence in the second half of the year. Hence, domestic demand is anticipated to turnaround to 1.5% during the period and expand further by 6.9% in 2021.

Private consumption declined by 6% during the first half of 2020, affected by the implementation of the MCO. However, household spending is anticipated to pick up during the second half of the year, on the back of various stimulus packages aimed at providing support to households and businesses. The measures include a moratorium on loan repayments, temporary optional reduction in employees' contributions to the Employees Provident Fund ("**EPF**") and discounts on electricity bill as well as low interest rates. As a result, private consumption is projected to rebound by 4.2% in the second half, cushioning overall consumption activities, which is expected to record a marginal decrease of 0.7% in 2020.

Private consumption is anticipated to increase by 7.1% in 2021, mainly supported by higher disposable income arising from buoyant domestic economic activities, stronger export earnings, accommodative financial stance, extension of tax relief on childcare and favourable stock market conditions. Better job prospects, following broader improvement in the economy and measures addressing employability, are also expected to contribute to household spending. Furthermore, the expected recovery in the tourism-related industries following tax incentives on domestic tourism expenses for households will also provide additional impetus to private sector spending. As the nation rapidly shifts towards adopting digitalisation, the broader availability of various e-commerce platforms and rollout of 5G technology will facilitate economic activities.

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

5.2 Overview and outlook of the construction industry in Malaysia

The construction sector registered a larger contraction (-13.9%; 3Q 2020: -12.4%). Labour shortages, site shutdowns due to COVID-19 outbreaks and interruptions in progress of selected work packages have affected growth, particularly in the civil engineering and residential sub sectors. The special trade sub sector, however, continued to register positive growth following support from small-scale projects under the PRIHATIN stimulus package.

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

The construction sector contracted by 25.9% in the first half of 2020 and is expected to shrink by 11.8% in the second half with all segments declining significantly. At the same time, prolonged property overhangs continue to weigh down the performance of the sector. However, civil engineering and specialised construction activities subsectors are expected to improve gradually, cushioned by various measures under the economic stimulus packages. Overall, the sector is projected to contract by 18.7% in 2020.

The real estate and business services subsector declined by 11.3% in the first half of 2020, attributed to temporarily suspension of construction activities during the MCO. The subsector is expected to continue to decline by 11.9% in the second half and 11.6% for the whole year. This is mainly due to deferred construction projects and subdued business activities. However, with projected economic recovery and the roll-out of delayed infrastructure projects, the subsector is expected to rebound by 7.6% in 2021.

The construction sector is expected to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects. The civil engineering subsector will continue to be the main driver of the construction sector. The residential subsector is anticipated to improve, supported by various measures taken by the Government to address the property overhang situation. Among the measures include the extension of Home Ownership Campaign, exemption of Real Property Gains Tax, the introduction of rent-to-own scheme as well as reduction of foreign ownership threshold. The performance of the non residential subsector is expected to recover marginally, supported by on-going commercial projects including Bukit Bintang City Centre, Cyberjaya City Centre, Forest City and Malaysia Vision Valley 2.0.

(Source: Chapter 3, Macroeconomic Outlook, Economic Outlook 2021, Ministry of Finance)

To ensure Government's expenditure has high multiplier to the economy, a total of 2.5 billion ringgit has been allocated for contractors in Class G1 to G4 to carry out small and medium projects across the country including additional 200 million ringgit for maintenance projects for Federal Roads and 50 million ringgit for PPR houses.

The Government is committed to implement transport infrastructure project to increase the mobility of rakyat. In 2021, 15 billion ringgit will be allocated to fund the Pan Borneo Highway, Gemas-Johor Bahru Electrified Double-Tracking Project and Klang Valley Double Tracking Project Phase One. In addition, several key projects will also be continued such as Rapid Transit System Link from Johor Bahru to Woodlands, Singapore and MRT3 in Klang Valley.

There are also several large new projects worth approximately 3.8 billion ringgit that will be implemented as follows:

- First : Construction of the Second Phase of the Klang Third Bridge in Selangor;
- Second : Continuing the Central Spine Project with the new alignment from Kelantan to Pahang;
- Third : Upgrading the bridge across Sungai Marang, Terengganu;
- Fourth : Upgrading of Federal Road connecting Gerik, Perak to Kulim, Kedah;
- Fifth : To continue building and upgrading Phase of the Pulau Indah, Klang Ringroad Phase 3, Selangor;
- Sixth : Construction of the Pan Borneo Highway Sabah from Serusop to Pituru; and
- Seventh : Construction of the Cameron Highlands Bypass road, Pahang with emphasis on preserving the environment.

For the five regional corridors of economic development, development projects will be continued with an allocation of 780 million ringgit for year 2021 including:

- First : Rapid Transit Bus Transport System at 3 High Capacity Routes and construction of busway at IRDA in Johor;
- Second : Construction of the Palekbang Bridge to Kota Bahru, Kelantan under ECER;
- Third : Construction of infrastructure and related components of the Special Development Zone project in Yan and Baling, Kedah under NCER;
- Fourth : Infrastructure Project in the Samalaju Industrial Area, Sarawak under SCORE; and
- Fifth : Continuation of the Sapangar Bay Container Port Expansion Project, Sabah under SDC.

EPF will continue the development of Kwasa Damansara with an estimated Gross Development Value of 50 billion ringgit. It will consist of commercial, residential, infrastructure as well as innovation and medical hub. More than 100 thousand jobs are expected to be created, and more than 25 thousand houses including ten thousand affordable houses will be built.

(Source: Budget 2021 Speech, Ministry of Finance)

5.3 Future prospects of SERB and the enlarged Advancecon Group

SERB Group is mainly involved in Quarry Operation Business (i.e. upstream activity of quarry operation as well as the downstream activity of production and sales of aggregates and premix products). The construction industry which the Quarry Operation Business heavily relies on, like all other industries, had been affected by the COVID-19 pandemic. Nevertheless, as set out in **Section 5.2** of this announcement, the construction sector is expected to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects. The civil engineering subsector will continue to be the main driver of the construction sector.

Upon successful completion of the Proposed Acquisition, Advancecon Group will get immediate access to SERB Group's Quarry Operation Business, enabling Advancecon Group to utilise the quarry products from SERB Group for its earthworks and road-based infrastructure construction activities. On top of internal usage, the enlarged Advancecon Group will be able to directly supply SERB Group's quarry products to Advancecon Group's subcontractors who work at the project sites, which is expected to reduce the risk of delay in delivery of materials and Advancecon Group will have better control over the supply of quarry products instead of relying on third party suppliers whom the Group may not be familiar with their quality of products/ materials.

In the long run, the Proposed Acquisition is expected to improve the earnings of the enlarged Advancecon Group given that the Board and management of SERB have outlined a turnaround plan to improve SERB Group's earnings and overall operating structure. Upon the completion of the Proposals, the new Quarry Operation Business will potentially provide the Group with additional stream of revenue and contribute positively to the Group's future earnings. Further, the enlarged Advancecon Group is expected to have greater economies of scale due to the similar nature of construction activities between both companies, and the resultant lower overall costs of operations from the enlarged Advancecon Group is expected to help improve profitability of the enlarged Advancecon Group.

As highlighted in **Section 2.1** of this announcement, SERB Group had over the past 4 financial years up to the FYE 31 December 2020, recorded LAT of approximately RM1.23 million, RM3.60 million, RM3.76 million and RM100.51 million, respectively. SERB's loss making position was mainly attributable to its decreasing revenue contribution from the civil engineering and bauxite mining business segments. The decrease in revenue from the civil engineering segment was mainly due to collection issues for the Highway Project and SERB Group has ceased all construction works on the Highway Project since the FYE 31 December 2019. The decrease in revenue from the bauxite mining business segment was due to the imposition of moratorium on bauxite mining in Pahang by the Ministry of Natural Resources and Environment on 15 January 2016, which resulted in all bauxite mining activities of SERB Group had to be suspended and SERB Group was limited only to selling existing bauxite supply. Further commentary on the historical financial performance of SERB Group are set out in **Section 2.1(vi)** of this announcement.

The Board takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020. As part of the Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, the Board will work with the management of SERB to put in place plans and steps together to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability, which are envisaged to include amongst others, the following:-

- (i) To increase the revenue of SERB Group by cross selling SERB Group's quarry products to Advancecon Group's subcontractors who work at the project sites as SERB Group will get immediate exposure to Advancecon Group's subcontractors base without incurring additional marketing and time costs to generate sales leads;
- (ii) To increase the revenue of SERB Group by undertaking initiatives to re-engage inactive customers of SERB Group, such as deployment of dedicated sales personnel to provide personalised services to such customers, utilising all forms of communication channels to reconnect with the inactive customers, providing incentives/ rebates to attract these group of customers, thereby potentially increasing SERB Group's sale of quarry products in the medium to long term;
- (iii) To integrate the civil engineering activities of SERB Group to be taken over by Advancecon, thereby allowing SERB Group to focus on its core expertise of providing integrated quarry operation management and services under the leadership of Dato' Yap Soon Huat and his management team; and
- (iv) To undertake possible cost reduction for SERB Group by streamlining SERB Group's back office operations into Advancecon Group through the sharing of resources within the enlarged Advancecon Group to obtain economies of scale, thereby achieving potential savings on staff costs and administrative expenses coupled with improved operational efficiency for SERB Group. The shared services will focus mainly on back office departments such as human resources, marketing, information technology and to a lesser extent purchasing and supply chain management, where most cost savings can be realised.

Further details on the steps to be taken together by the Board and SERB's management to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability as set out in **Appendix IV** of this announcement.

By undertaking the aforementioned measures to improve SERB Group's revenue and to manage its operating expenses through the streamlining of operations to achieve the intended costs savings, the Board is confident that, barring any unforeseen circumstances, SERB Group is expected to return to profitability in the FYE 31 December 2022, wherein the Vendor has also provided a total profit guarantee of RM12.00 million for 2 financial years of FYE 31 December 2022 and FYE 31 December 2023 of SERB, which translates to a profit guarantee of RM6.00 million per financial year (RM3.06 million per financial year attributable to Advancecon based on 51% equity interest to be acquired).

In light of the positive prospects in the local construction industry specifically in the civil engineering subsector, the Board sees the Proposals as favourable to the enlarged Advancecon Group in the short to medium run as it accords well with Advancecon Group's plan to expand its construction business. The Board also believes that the Proposed Acquisition could potentially be able to improve the financial performance of the enlarged Advancecon Group moving forward.

(Source: Management of Advancecon)

6. RISK FACTORS

The Board anticipates that the enlarged Advancecon Group may be exposed to the following material risk factors, which may not be exhaustive, pursuant to the Proposed Acquisition and Proposed Diversification:-

6.1 Investment risks

It is expected that upon completion of the Proposed Acquisition, the business and operations of SERB Group will contribute positively to the enlarged Advancecon Group's future financial performance and diversify the enlarged Advancecon Group's sources of earnings. However, such benefits to be realised from the Proposed Acquisition are dependent upon the successful integration of SERB Group into the enlarged Advancecon Group. Further, there can be no assurance that the business and operations of SERB Group will continue to generate the expected return on investment, beyond the Total Profit Guarantee, as the success and profitability of the Quarry Operation Business is exposed to various risk factors as set out in **Section 6** of this announcement.

Nevertheless, moving forward, the Board is confident that it can manage such risk by leveraging on the experience and expertise of Advancecon Group's management, including in particular, the key management personnel as set out in **Section 3** of this announcement.

6.2 Completion risk

The completion of the Proposed Acquisition is conditional upon the conditions precedent of the SSA being fulfilled or waived, details of which are set out in **Appendix II** of this announcement. There can be no assurance that such conditions will be fulfilled or waived within the timeframe stipulated in the SSA. In the event that the condition precedents are not met/ waived, the SSA will be terminated and the Proposed Acquisition will not be completed.

Nevertheless, the Board will take reasonable steps to ensure that the conditions precedents are met in a timely manner and that every effort is made to obtain all necessary approvals for the Proposed Acquisition within the stipulated timeframe.

6.3 Business diversification risks

The Proposed Diversification and the Proposed Acquisition will expose the enlarged Advancecon Group to risks inherent to the Quarry Operation Business. These risks may include, amongst others, general economic downturn in the global and regional economies, adverse developments in the local economic, political and regulatory environment, changes in demand and oversupply of quarry and premix products, and changes in the legal and environmental framework within which this business operates. Further, quarry operation is subject to weather and natural hazards. Adverse weather and natural hazards such as the occurrence of severe storms and other extreme natural conditions may lead to delays or disruptions in Advancecon Group's Quarry Operation Business, which may have a material adverse impact on Advancecon Group's future revenue, profits and financial position.

The Group will seek to limit these risks through, amongst others, leveraging on the experience and expertise of the key management personnel. In addition, Advancecon Group shall conduct periodic reviews of its Quarry Operation Business to ensure that prudent financial management and efficient operating procedures are put in place to limit the impact of the abovementioned risks. However, there is no assurance that any occurrence of the aforementioned events will not have a material adverse effect on Advancecon Group's business and earnings in the future.

6.4 Competition risk

The Group will face competition from existing competitors and/ or new entrants in the Quarry Operation Business. Nevertheless, Advancecon Group will endeavour to take proactive measures to remain competitive in this business by amongst others, constantly keeping abreast with the latest market conditions, and continuing efforts in maintaining a competitive edge in terms of cost competitiveness, service quality, product quality and service reliability.

However, there can be no assurance that Advancecon Group will be able to compete effectively with existing competitors and new entrants in Quarry Operation Business in the future which may materially affect Advancecon Group's future financial performance and financial position.

6.5 Dependency on key management personnel

As in any other business, Advancecon Group's success in the Proposed Diversification will depend largely on the capabilities, skills, competencies and continued effort of its experienced personnel. Recognising the importance of the key management personnel involved, Advancecon Group will adopt appropriate approaches, including incentives, remuneration packages as well as provide a good working environment to promote productivity and retain their services. In addition, Advancecon Group will also identify high-performing senior management and/ or employees to take on additional responsibilities and provide appropriate remuneration packages to retain their services in an effort to mitigate Advancecon Group's dependency on key management personnel.

However, there is no assurance that the loss of any such key management personnel, high-performing senior management and/ or employees will not adversely affect the success of Advancecon Group's Quarry Operation Business.

6.6 Impact of COVID-19

The World Health Organisation had on 11 March 2020 declared the COVID-19 outbreak as a global pandemic. As a measure to contain the outbreak, the Malaysian Government announced MCO which is effective from 18 March 2020. Effective 4 May 2020, the MCO has been transitioned into a conditional MCO ("**CMCO**") until 9 June 2020. As announced on 7 June 2020, the conditional MCO has further been transitioned into a recovery MCO ("**RMCO**") which had commenced with effect from 10 June 2020 until 31 August 2020. Subsequently vide an announcement on 28 August 2020, the RMCO was further extended from 31 August 2020 until 31 December 2020. Under the RMCO, more economic sectors and businesses were allowed to be opened subject to adherence with the necessary strict standard operating procedures ("**SOPs**").

However, following the resurgence of COVID-19 infections in Malaysia, the Malaysian Government had announced that the CMCO would be re-implemented for the states of Selangor, Kuala Lumpur and Putrajaya from 14 October 2020 to 9 November 2020. Subsequently, the Malaysian Government had announced on 7 November 2020 that the CMCO would be extended to 6 December 2020 and would include all states in Peninsular Malaysia except for Kelantan, Perlis and Pahang. The Malaysian Government had also implemented the CMCO in Sabah and Labuan from 13 October 2020 and 17 October 2020, respectively, until 6 December 2020. As the pandemic situation worsened in Malaysia, the Malaysian Government has since announced that Malaysia will be placed under a two-week total lockdown from 1 June 2021 to 14 June 2021, which was further extended to 28 June 2021.

Advancecon Group's operations were affected by the first MCO effective from 18 March 2020 until 4 May 2020 as the Group was required to cease all construction activities during this period. Following the relaxation of government lockdowns with the transition of the first MCO into the CMCO on 4 May 2020, Advancecon Group gradually resumed its business operations with strict adherence to standard operating procedures including ensuring all workers underwent mandatory COVID-19 screening and practised adequate social distancing.

Since then, Advancecon Group's businesses have continued to operate and contribute revenue to the Group, under strict COVID-19 preventive measures, such as workplace/ construction site hygiene policies (e.g. provision of personal protective equipment at worksite), requiring virtual meetings whenever possible, temperature monitoring, self-quarantining of travelling employees and work-from-home/ office rotation policies to minimise the number of employees at the business premises. During the FYE 31 December 2020, Advancecon Group had organised COVID-19 RT-PCR and RTK Antigen swab test for 88% of local employees and 100% of foreign employees. Nevertheless, the implementation of such preventive measures has increased Advancecon Group's operating costs.

Moving forward, Advancecon Group expects to face some challenges as a result from the implementation of local governments' new rules and requirements arising from the COVID-19 pandemic situation. There is no assurance that the COVID-19 outbreak and the on-going movement restrictions will not continue to have an adverse impact on the market conditions, the existing earthworks and civil engineering services activities of Advancecon Group and/ or the future Quarry Operation Business. Potential risks arising therefrom may include but not limited to slowdown in customers' demand, loss of customers, credit risk, disruption in supply chain, and continued increased operating costs to comply with the standard operating procedures, any of which may result in an adverse effect on Advancecon Group's business and financial conditions.

7. EFFECTS OF THE PROPOSALS

For illustrative purposes, the effects of the Proposals shall be based on the following 2 scenarios:-

Minimum Scenario : Assuming all the Treasury Shares are retained prior to the implementation of the Proposals.

Maximum Scenario : Assuming all the Treasury Shares are resold on the open market prior to the implementation of the Proposals.

7.1 Issued Share capital

The Proposed Diversification will not have any effect on the issued share capital of Advancecon as it will not involve any issuance of new Shares.

The Purchase Consideration will be satisfied via a combination of Cash Consideration and Consideration Shares. Therefore, the pro forma effects of the Proposed Acquisition on the issued Share capital of Advancecon are as follows:

	Minimum Scenario		Maximum Scenario	
	No. of Shares	RM	No. of Shares	RM
Existing issued share capital as at the LPD	415,813,000	91,933,171	415,813,000	91,933,171
Less: Treasury shares	(9,381,300)	(3,249,332)	-	-
	406,431,700	88,683,839	415,813,000	91,933,171
Consideration Shares to be issued pursuant to the Proposed Acquisition	33,000,000	15,180,000 ^{*1}	33,000,000	15,180,000 ^{*1}
Enlarged issued share capital	439,431,700	103,863,839	448,813,000	107,113,171

Note:-

^{*1} Computed based on the issue price of RM0.46 per Consideration Share.

7.2 NA per Share and gearing level

The Proposed Diversification is not expected to have any material effect on the NA per Share and gearing level of Advancecon Group.

Based on the latest audited consolidated financial statements of Advancecon Group for the FYE 31 December 2020, the pro forma effects of the Proposed Acquisition on the NA per Share and gearing level of Advancecon Group are set out below:-

Minimum Scenario

	Audited as at FYE 31 December 2020 RM	I	II
		Subsequent adjustments up to the LPD ^{*1} RM	After I and the Proposed Acquisition RM
Share capital	87,101,071	91,933,171 ^{*1}	107,113,171 ^{*2}
Treasury shares	(3,249,343)	(3,249,343)	(3,249,343)
Reserves	1,700,400	-	-

	Audited as at FYE 31 December 2020 RM	I Subsequent adjustments up to the LPD ^{*1} RM	II After I and the Proposed Acquisition RM
Retained earnings	102,008,584	102,635,184	101,365,284 ^{*3}
Shareholders' funds/ NA	187,560,712	191,319,012	205,229,112
Number of Shares in issue (excluding Treasury Shares)	395,693,700	406,431,700 ^{*1}	439,431,700 ^{*2}
NA per Share (RM)	0.47	0.47	0.47
Total borrowings (RM)	133,151,034	133,151,034	145,331,034 ^{*4}
Gearing level (times)	0.71	0.70	0.71

Maximum Scenario

	Audited as at FYE 31 December 2020 RM	I Subsequent adjustments up to the LPD ^{*1} RM	II After I and the Proposed Acquisition RM
Share capital	87,101,071	91,933,171 ^{*1}	107,113,171 ^{*2}
Treasury shares	(3,249,343)	(3,249,343)	- ^{*5}
Reserves	1,700,400	-	-
Retained earnings	102,008,584	102,635,184	101,365,284 ^{*3}
Shareholders' funds/ NA	187,560,712	191,319,012	208,478,455
Number of Shares in issue (excluding Treasury Shares)	395,693,700	406,431,700 ^{*1}	448,813,000 ^{*2}
NA per Share (RM)	0.47	0.47	0.46
Total borrowings (RM)	133,151,034	133,151,034	145,331,034 ^{*4}
Gearing level (times)	0.71	0.70	0.70

Notes:-

^{*1} After adjusting for the issuance and allotment of 10,738,000 new Advancecon Shares pursuant to the conversion of the company's ESOS options at the exercise price of RM0.35 and the corresponding reversal of share option reserve amounting to approximately RM1.07 million to the share capital. For information purposes, the remaining ESOS options had expired at 5 March 2021 and the remaining reserves amounting to approximately RM0.63 million have been reversed in retained earnings.

^{*2} After the issuance and allotment of 33,000,000 Consideration Shares at an issue price of RM0.46 per Consideration Share.

^{*3} After deducting the estimated expenses of RM600,000 for the Proposals and potential finance cost arising from the Proposed Acquisition of RM669,900 (assuming an indicative interest rate of approximately 5.50% per annum is imposed on the bank borrowings of RM12.18 million).

^{*4} Assuming the Cash Consideration is partially funded by bank borrowings of RM12.18 million.

^{*5} Assuming all of the 9,381,300 treasury shares are resold in the open market.

7.3 Substantial shareholding structure

The Proposed Diversification will not have any effect on the substantial shareholders' shareholdings of Advancecon as it will not result in any adjustment to the number of Shares in Advancecon.

The Proposed Acquisition will have an effect on the substantial shareholders' shareholdings in Advancecon as it involves the issuance and allotment of Considerations Shares. Set out below are the pro forma effects of the Proposed Acquisition on the substantial shareholdings structure of Advancecon as at the LPD:

Minimum Scenario

	Shareholdings as at the LPD				After the Proposed Acquisition			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of Shares	% ^{*1}	No. of Shares	% ^{*1}	No. of Shares	% ^{*2}	No. of Shares	% ^{*2}
Dato' Phum Ang Kia	97,563,750	24.0	150,000 ^{*3}	- ^{*4}	97,563,750	22.2	150,000 ^{*3}	- ^{*4}
Lim Swee Chai	54,038,250	13.3	-	-	54,038,250	12.3	-	-
Pham Soon Kok	28,600,250	7.0	-	-	28,600,250	6.5	-	-
Vendor	-	-	-	-	33,000,000	7.5	-	-

Notes:-

^{*1} Based on the issued Shares (excluding treasury shares) of 406,431,700 in Advancecon.

^{*2} Based on the enlarged issued Shares (excluding treasury shares) of 439,431,700 in Advancecon.

^{*3} Deemed interested through his family pursuant to Section 8 of the Company Act 2016.

^{*4} Negligable.

Maximum Scenario

	Shareholdings as at the LPD				I Assuming all treasury shares are resold				II After I and the Proposed Acquisition			
	<-----Direct----->		<-----Indirect---->		<-----Direct----->		<-----Indirect---->		<-----Direct----->		<-----Indirect---->	
	No. of Shares	% ^{*1}	No. of Shares	% ^{*1}	No. of Shares	% ^{*2}	No. of Shares	% ^{*2}	No. of Shares	% ^{*3}	No. of Shares	% ^{*3}
Dato' Phum Ang Kia	97,563,750	24.0	150,000 ^{*4}	- ^{*5}	97,563,750	23.5	150,000 ^{*4}	- ^{*5}	97,563,750	21.7	150,000 ^{*4}	- ^{*5}
Lim Swee Chai	54,038,250	13.3	-	-	54,038,250	13.0	-	-	54,038,250	12.0	-	-
Pham Soon Kok	28,600,250	7.0	-	-	28,600,250	6.9	-	-	28,600,250	6.4	-	-
Vendor	-	-	-	-	-	-	-	-	33,000,000	7.4	-	-

Notes:-

^{*1} Based on the issued Shares (excluding treasury shares) of 406,431,700 in Advancecon.

^{*2} Based on the issued Shares of 415,813,000 in Advancecon.

^{*3} Based on the enlarged issued Shares of 448,813,000 in Advancecon.

^{*4} Deemed interested through his family pursuant to Section 8 of the Company Act 2016.

^{*5} Negligible.

7.4 Earnings and EPS

The Proposed Acquisition is not expected to have immediate material effect on the consolidated earnings of Advancecon Group for the FYE 31 December 2020 as the Proposed Acquisition is only expected to be completed in the third quarter of 2021.

The Proposed Acquisition comes with Total Profit Guarantee of RM12,000,000 for a period of 2 financial years of FYE 31 December 2022 and FYE 31 December 2023 of SERB, translating to a yearly profit guarantee of RM6,000,000 per financial year. Based on the above and a 51.0% share of profits of SERB, Advancecon Group stands to recognise the Yearly Profit Guarantee of RM3,060,000 per annum for a period of 2 financial years of FYE 31 December 2022 and FYE 31 December 2023 of SERB. Therefore, the Proposed Acquisition is expected to contribute positively to the future earnings of Advancecon Group after taking into consideration the Total Profit Guarantee and the prospects of the Proposed Acquisition.

Purely for illustration purpose, assuming that the Proposals had been completed on 1 January 2020, being the beginning of the latest audited FYE 31 December 2020 of Advancecon and the yearly profit guarantee of RM3,060,000 was recognised by Advancecon during the FYE 31 December 2020, the pro forma effects of the Proposals on the earnings of Advancecon Group are illustrated as follows:-

Minimum Scenario

	Audited FYE 31 December 2020 RM	After the Proposed Acquisition RM
PAT (attributable to shareholders)	2,101,045	2,101,045
Add: Yearly Profit Guarantee	-	3,060,000
Less: Estimated expenses for the Proposals and potential finance cost arising from the Proposed Acquisition	-	(1,269,900) ¹
Total PAT	2,101,045	3,891,145
Number of Shares in issue (excluding Treasury Shares)	395,693,700	439,431,700
Basic EPS (sen)	0.53	0.89²

Maximum Scenario

	Audited FYE 31 December 2020 RM	After the Proposed Acquisition RM
PAT (attributable to shareholders)	2,101,045	2,101,045
Add: Yearly Profit Guarantee	-	3,060,000
Less: Estimated expenses for the Proposals and potential finance cost arising from the Proposed Acquisition	-	(1,269,900) ¹
Total PAT	2,101,045	3,891,145
Number of Shares in issue (excluding Treasury Shares)	395,693,700	448,813,000
Basic EPS (sen)	0.53	0.87²

Note:

¹ After deducting the estimated expenses of RM600,000 for the Proposals and potential finance cost arising from the Proposed Acquisition of RM669,900 (assuming an indicative interest rate of approximately 5.50% per annum is imposed on the bank borrowings of RM12.18 million).

² Computed based on of PAT (attributable to shareholders) and the Yearly Profit Guarantee divided by the total number of Advancecon Shares in issue after the Proposed Acquisition.

As set out in **Section 4.2** of this announcement, barring any unforeseen circumstances, the Proposed Diversification is expected to contribute positively to the earnings of Advancecon Group for the financial year ending 31 December 2021.

7.5 Convertible securities

As at the LPD, Advancecon does not have any outstanding convertible securities.

8. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:-

- (i) Bursa Securities for the listing of and quotation for 33,000,000 Consideration Shares to be issued pursuant to the Proposed Acquisition on the Main Market of Bursa Securities;
- (ii) The shareholders of Advancecon, for the Proposals at an EGM to be convened; and
- (iii) Any other relevant authority and/ or party, if required.

The Proposed Acquisition and the Proposed Diversification are inter-conditional upon each other.

The Proposals are not conditional upon any other proposal undertaken or to be undertaken by the Company.

9. HIGHEST PERCENTAGE RATIOS

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Listing Requirements is approximately 63.42%, calculated based on the audited consolidated total assets of the SERB Group for the FYE 31 December 2020 against the audited consolidated total assets of Advancecon Group for the FYE 31 December 2020.

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

None of the Directors, major shareholders of Advancecon, chief executive of Advancecon and/ or person connected with them have any interests, whether direct or indirect, in the Proposals.

11. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Proposals, including the rationale and justification for the Proposals, the salient terms of the SSA and Shareholders' Agreement, the basis and justification of arriving at the Purchase Consideration, the effects of the Proposals and the future prospects of SERB Group, is of the opinion that the Proposals are in the best interest of Advancecon Group and the terms and conditions of the SSA and Shareholders' Agreement are fair and reasonable.

12. APPLICATION TO THE AUTHORITIES

Barring any unforeseen circumstances, the application to the relevant authorities in relation to the Proposals is expected to be made within a period of 2 months from the date of this announcement.

13. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to the fulfilment of all the conditions precedent to the SSA, including all the required approvals being obtained, the Proposed Acquisition is expected to be completed by the third quarter of 2021.

The Proposed Diversification will take immediate effect upon obtaining the approval of Advancecon's shareholders at the general meeting to be convened.

14. PRINCIPAL ADVISER

UOBKH has been appointed by the Company to act as the Principal Adviser for the Proposals.

This announcement is dated 17 June 2021.

SALIENT TERMS OF THE SSA

SALIENT TERMS OF THE SSA**(i) Sale and Purchase of the Sale Shares**

In consideration of the Purchase Consideration which shall be satisfied by Cash Consideration and issuance and allotment of Consideration Shares, the Vendors as legal and beneficial owners shall sell, and Advancecon relying on the warranties and representations by the Vendor contained in the SSA shall purchase, the Sale Shares free from any and all encumbrances and with all rights, benefits and advantages now or hereafter attaching thereto, including all bonuses, rights, dividends and distributions declared made and paid as from the Completion Date (see definition in **Section 2.1.6** of this announcement) upon the terms and subject to the conditions contained in the SSA.

(ii) Conditions precedent

Completion of the SSA is conditional upon:

- (a) Advancecon obtaining the approval of Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities;
- (b) Advancecon obtaining the approval of the Board of Directors and the shareholders of Advancecon for the Proposed Acquisition and the Proposed Diversification;
- (c) the Vendor obtaining the approval of the Board of Directors of SERB for the transfer of the Sale Shares to Advancecon;
- (d) the Vendor depositing with the documentation stakeholder the following documents ("**Stakeholder Documents**"):
 - (i) the share certificates in respect of all the Sale Shares (if any);
 - (ii) the instruments of transfer under Section 105 of the Companies Act 2016 in respect of the Sale Shares duly executed by the Vendor as transferor in favour of Advancecon as transferee ("**Transfer**");
- (e) the execution of the Shareholders Agreement; and
- (f) such other waivers, consents or approvals as may be required (or deemed necessary by the Parties) from any third party (including financial institution) or relevant governmental or regulatory body ("**Relevant Authorities**") necessary or appropriate to carry out the sale and purchase of the Sale Shares pursuant to the terms of the SSA having been obtained.

Notwithstanding anything to the contrary, the conditions precedent shall be satisfied within 3 months from the date of the SSA with an automatic extension of a further 1 month if the conditions precedent shall not have been satisfied by the expiry of the aforesaid initial 3-month period (hereinafter referred to as the "**Cut-Off Date**"). Thereafter, all parties to the SSA may (before or on expiry of the Cut-Off Date) have an extension(s) of time as may be agreed between the parties to comply with the conditions precedent. If the conditions precedent have not been fulfilled on the expiry of the Cut-Off Date or such extension of time agreed between the parties to the SSA, then either the Vendor or Advancecon shall be entitled to rescind this SSA by serving a written notice to the other party(ies) whereupon the Vendor shall refund to Advancecon the Deposit (as defined in item (iii) below) paid under the SSA free of interest within fourteen (14) days from the receipt of the said written notice and the SSA shall lapse and cease to have any further force or effect except in respect of:

- (1) any obligation under the SSA which is expressed to apply after the termination of the SSA; and
- (2) any rights or obligations which have accrued in respect of any breach of any of the provisions of the SSA to either Party prior to such termination.

(iii) Purchase Consideration

The Purchase Consideration of RM30,400,000.00 only shall be satisfied in the following manner:

- (a) RM3,040,000.00 only to be paid in cash by Advancecon to the Vendor upon the execution of the SSA ("**Deposit**");
- (b) RM12,180,000.00 only to be paid in cash by Advancecon to the Vendor on Completion Date in cash ("**Balance Cash Consideration**"); and
- (c) RM15,180,000.00 only to be satisfied by the allotment and issuance of the 33,000,000 Consideration Shares by Advancecon to the Vendor on Completion Date.

(iv) Completion

Completion shall take place on the Completion Date.

Completion is conditional upon all the Sale Shares collectively being sold to Advancecon and that Advancecon and the Vendor performs all therein obligations in the SSA.

At the Completion Date, the Vendor shall deliver or cause to be delivered to Advancecon:

- (a) the resolution of the Board of Directors of SERB approving the transfer and registration of the Sale Shares in favour of Advancecon subject only to the transfers having been duly stamped;
- (b) the Stakeholder Documents including the Transfer and notice of adjudication (if not already deposited with the documentation stakeholder) and such documents as may be required to give good title to the Sale Shares and to enable Advancecon to become the registered holder of the Sale Shares;
- (c) the certified true copies of the approvals or documents referred to in item (ii) above;
- (d) the resolution of the Board of Directors of SERB approving the appointment of such persons nominated by Advancecon as director(s) of SERB effective on the Completion Date representing not less than 51% of the total enlarged board of directors of SERB after such appointment;
- (e) all other relevant documents to effect the transfer of legal and beneficial title of the Sale Shares to Advancecon (if any).

Provided always that Advancecon has carried out its obligations pursuant to the terms in this item (iv), the Vendor hereby agrees and undertakes to forthwith do all acts and things so as to register Advancecon as a member of SERB in the register of members of SERB.

Against the delivery of the above documents, Advancecon shall on Completion Date:

- (a) pay the Balance Cash Consideration to the Vendor as follows:
 - (1) RM9,800,000.00 only shall be paid into SERB on behalf of the Vendor as the Vendor's Shareholder's Advance; and
 - (2) RM2,380,000.00 only shall be paid to the Vendor in cash;
- (b) allot and issue the Consideration Shares into the CDS Account of the Vendor; and
- (c) produce and deliver to the Vendor the certified copies of the approvals, shareholders resolutions and/or documents referred to in item (ii) above.

Completion is conditional on the Vendor and Advancecon complying with all of their respective obligations under this section, and the listing and quotation of the Consideration Shares on the Main Market of Bursa Securities. For this purpose, Advancecon shall cause the Consideration Shares to be listed and quoted on the Main Market of Bursa Securities within 10 business days from the Completion Date or such other extended period as the Parties may mutually agree upon in writing.

The Vendor shall further cause the transfer of the Sale Shares to Advancecon and Advancecon to be registered as a member of SERB into the register of members of SERB as at the Completion Date (or a later date as consented to by Advancecon) and appoint its nominated persons as directors of SERB and notify the Companies Commission of Malaysia of the changes in shareholders and directors of SERB as at the Completion Date (or a later date as consented to by Advancecon) in accordance with the Companies Act 2016 and pending registration shall hold the Sale Shares with effect from the Completion Date as bare trustee for the benefit of Advancecon.

if any party fails to comply with any of its obligations and those obligations are not waived by the other party on Completion and if the Consideration Shares have not yet been issued, then item (vii) of Appendix I below shall apply.

(v) Profit Guarantee

The Vendor agrees, undertakes and guarantees that the PAT (as defined below) for the two (2) 12-month financial years of FYE 31 December 2022 ("**Year 1**") and FYE 31 December 2023 ("**Year 2**") shall be not less than RM12,000,000.00 only in aggregate ("**Profit Guarantee**").

Provided that if there are circumstance(s) materially and adversely affecting the economy of Malaysia beyond the reasonable control of the Vendor and/or SERB as a result of a prolonged mandatory movement control order(s) issued by the Malaysian Government ("**MCO**") thereby restricting the businesses of the SERB Group ("**Adverse Event**"), the above Profit Guarantee period shall be further automatically extended for a further twenty-four (24) months ending 31 December 2025 if the Profit Guarantee amount has not yet been met as at 31 December 2023. An "Adverse Event" is deemed to have occurred where MCO is declared over all or any of the district(s) in which all or part of the SERB Group operate or where an event connected or related to COVID-19 pandemic occurred in any of the facilities and place of business of the SERB Group which required the facilities or place of business to cease or reduce its operation by more than 50% which in aggregate are more than four (4) months in total during the initial Profit Guarantee period ending 31 December 2023. Where the Profit Guarantee period is extended pursuant to the aforesaid, reference to "**Profit Guarantee Period**" includes the above extended 24-month period ending 31 December 2025.

Upon expiry of the Profit Guarantee Period and (i) adoption of the Accounts 2022 (as defined below) and Accounts 2023 (as defined below) (and if the Profit Guarantee Period is extended as above, Accounts 2024 (as defined below) and Accounts 2025 (as defined below)) respectively by the shareholders of SERB with the respective Accounts 2022 and Accounts 2023 (and if applicable, Accounts 2024 and Accounts 2025) having being lodged with Companies Commission of Malaysia and/or (ii) the Parties mutually agreeing to the Special Audit Report (as defined below):

- (a) Advancecon shall notify the Vendor in writing ("**Notice**") within fourteen (14) days of the Accounts 2022, Accounts 2023, Accounts 2024, Accounts 2025 and Special Audit Report (as may be applicable) being available to Advancecon of the following:
 - (i) the aggregate PAT for the Profit Guarantee Period based on the Accounts 2022 and Accounts 2023 (and if the Profit Guarantee Period is extended under **Clause 6.1**, as well as Accounts 2024 and Accounts 2025) and Special Audit Report (as the case may be);
 - (ii) whether there is a shortfall between the abovesaid aggregated PAT for the Profit Guarantee Period and the Profit Guarantee amount ("**Shortfall**");
 - (iii) if there is a Shortfall, the Shortfall amount; and
 - (iv) the Shortfall amount attributable to Advancecon (it being 51% of the Shortfall amount) ("**Shortfall To Purchaser**"),

In the event there is no PAT or SERB has cumulative consolidated losses after tax for the Profit Guarantee Period based on the Accounts 2022, Accounts 2023, Accounts 2024, Accounts 2025 and Special Audit Report (where applicable), the Shortfall To Purchaser shall be deemed to be Ringgit Malaysia Six Million One Hundred and Twenty Thousand (RM6,120,000.00) *plus* 51% of such cumulative consolidated losses after tax for the Profit Guarantee Period. Purely as illustration, where there is a consolidated loss after tax for the Profit Guarantee Period of RM2,000,000.00, the total Shortfall To Purchaser is RM7,140,000.00.

In the event the aggregate PAT for the Profit Guarantee Period based on the Accounts 2022, Accounts 2023, Accounts 2024, Accounts 2025 and Special Audit Report (where applicable) is equivalent to or more than the Profit Guarantee amount and upon receipt of the Notice from Advancecon pursuant to **Clause 6.2.1**, the Vendor is deemed to have fully fulfilled its obligations towards the Profit Guarantee under this section.

In the event there is a Shortfall and/or Shortfall To Purchaser, then:

- (a) the Vendor shall be liable to (as defined below) to fully pay the Shortfall to Purchaser within 30 business days from the date of the Notice; and
- (b) upon payment of the Shortfall To Purchaser in full and any other monies outstanding and payable to Advancecon pursuant to this section (including any cost and expenses suffered by Advancecon towards recovery of such monies), the Vendor is deemed to have fully fulfilled its obligations towards the Profit Guarantee under this section.

In the event that the Vendor fails to pay Advancecon the Shortfall To Purchaser in full within the said 30 business days set out above, Advancecon shall be entitled and the Vendor hereby authorises Advancecon to issue a written notice to SERB to repay part of the Vendor's Shareholder's Advance equivalent to outstanding Shortfall To Purchaser directly to Advancecon in lieu of repayment to the Vendor and such payment by SERB directly to Advancecon shall be deemed part repayment by SERB to the Vendor of such portion of its Vendor's Shareholder's Advance. Any remaining Shortfall To Purchaser not met from the payment by the Vendor and/or SERB as aforesaid shall be a debt immediately due from the Vendor and Advancecon shall be entitled to pursue all remedies available to it under law and equities to recover such amount. All unpaid Shortfall To Purchaser shall be subject to late payment interest at the rate of five per cent (5%) per annum calculated from the date of expiry of the aforesaid 30th business day up to full payment thereof.

For the purposes of this **section**:

- (a) **"Accounts 2022"** means the consolidated audited financial statements of SERB for the 12 months financial year ending on 31 December 2022 prepared by the auditors of SERB consented to by Advancecon and adopted by the shareholders of SERB (including Advancecon) and shall include any notes thereon and any reports, statements or documents annexed or attached thereto;
- (b) **"Accounts 2023"** means the consolidated audited financial statements of SERB for the 12 months financial year ending on 31 December 2023 prepared by the auditors of SERB consented to by Advancecon and adopted by the shareholders of SERB (including Advancecon) and shall include any notes thereon and any reports, statements or documents annexed or attached thereto;
- (c) **"Accounts 2024"** means the consolidated audited financial statements of SERB for the 12 months financial year ending on 31 December 2024 prepared by the auditors of SERB consented to by Advancecon and adopted by the shareholders of SERB (including Advancecon) and shall include any notes thereon and any reports, statements or documents annexed or attached thereto;
- (d) **"Accounts 2025"** means the consolidated audited financial statements of SERB for the 12 months financial year ending on 31 December 2025 prepared by the auditors of SERB consented to by Advancecon and adopted by the shareholders of SERB (including Advancecon) and shall include any notes thereon and any reports, statements or documents annexed or attached thereto;
- (e) **"PAT"** means the consolidated net profit after taxation of SERB and its subsidiaries (now or hereafter) attributable to the owner of SERB for the Profit Guarantee Period based on the Accounts 2022, Accounts 2023, Accounts 2024, Accounts 2025 and/or the Special Audit Report(s) (if so required) after netting off any net losses after tax during the Profit Guarantee Period;
- (f) The Vendor agrees that there shall be no change in the present financial year of SERB during the Profit Guarantee Period without the prior written consent of Advancecon. The financial year end of SERB may however be changed to be consistent with the financial year end of Advancecpm. In the event the audited financial statements of SERB adopted by the shareholders of SERB do not fall within the prescribed twelve-month periods of FYE 31 December and/or does not fall within the definition of Accounts 2022, Accounts 2023, Accounts 2024 and Accounts 2025 respectively (where applicable) and/or the PAT cannot be determined or agreed upon from the Accounts 2022, Accounts 2023, Accounts 2024 and/or Accounts 2025 (where applicable), the Vendor shall cause SERB to undertake a special audit by such firm of auditors approved by Advancecon and the Vendor (failing concurrence of the firm to be appointed, by the auditors of Advancecon), all at the cost of SERB, so that it can be determined therefrom the PAT for the Profit Guarantee Period.

All such audited financial statements of SERB arising from the special audit for the Profit Guarantee Period shall be subject to mutual approval and acceptance by the Vendor and Advancecon and thereupon shall be deemed to be the adopted "Special Audit Report" and the net profit after taxation of SERB reflected therein for the 12 month period of FYE 31 December 2022, 31 December 2023, 31 December 2024 and/or 31 December 2025 (as the case may be) shall be the "PAT" for the purposes of this section. For the avoidance of doubt, Advancecon may agree that the Special Audit be conducted for any one or more of the FYE 31 December and/or rely on the Accounts 2022, Accounts 2023, Accounts 2024 and Accounts 2025 (as the case may be) for the financial year in which special audit is not conducted for.

(vi) Specific Warranty on the Highway Project Dispute

For the purpose of this section, "Highway Project Dispute" refers to means all disputes (whether present or future) involving SERB Group in connection with the works undertaken by SERB Group for the Highway Project.

At the request of Advancecon, the Vendor has caused to be impaired the amount of RM67,500,943.94 in the audited consolidated financial statements of the Company for the financial year ended 31 December 2020 in respect of certified claims by Spring Energy Sdn. Bhd. ("**SESB**") in connection with works undertaken for the Highway Project ("**Impaired Amount**").

The Vendor shall at all times manage and carry out the necessary actions required to protect and defend SERB Group and Advancecon (if applicable) in relation to the Highway Project Dispute (including any decision to appeal, settle, withdraw and/or instruct to the lawyers) promptly, diligently and to the best interest of SERB Group and Advancecon (if applicable) provided that it does not materially adversely affect Advancecon (individually or together with its subsidiaries) and/or the SERB Group.

The Vendor shall from time to time update Advancecon of the progress of the Highway Project Dispute and where requested by Advancecon, provide all relevant information and documents so requested. The Vendor acknowledges that Advancecon may be required to make announcement to Bursa Securities from time to time with regards to the Highway Project Dispute and agrees to such disclosures provided that Advancecon shall provide all such draft disclosures to the Vendor for its perusal (and if during the period prior the Completion Date, the approval of the Vendor which shall not be unreasonably withheld or delayed) prior to any disclosure being made.

The Vendor shall bear and indemnify the SERB Group and Advancecon against all liabilities, obligations, risks, loss, damages, compensations, costs and expenses (including taxes and interest costs and expenses as a result of the Vendor failing to perform its obligations under or pursuant to any of the aforesaid or otherwise incurred in enforcing or seeking to enforce this provision or obtaining or seeking to obtain payment of all or any part of the monies hereby agreed to be indemnified) arising from the Highway Project Dispute (including but not limited to any counterclaims, appeals and settlements, whether initiated before, on or after the date of the SSA) save for any loss, damage, cost or expenses already paid for by SESB in respect of the Highway Project Dispute as at the date of the SSA.

All relevant damages (if any), compensation (if any), costs and expenses incurred by the SERB Group in respect of the Highway Project Dispute is to be borne by the Vendor shall be payable by the Vendor to a designated bank account of SERB and/or SESB, the details of which shall be given to the Vendor.

Advancecon irrevocably agrees that in the event SESB is successful to recover any of the Impaired Amount, the Vendor is entitled to receive from SESB a sum equivalent to one hundred percent (100%) of the recovered Impaired Amount so received by SESB less all cost and expenses (including any tax) incurred or payable by the SERB Group (save for any costs and expenses already paid by the Vendor or already paid by SESB prior to the date of the SSA) ("**Award Sum**") in consideration of the above and for the Vendor's successful management of the Highway Project Dispute.

Advancecon hereby further agree to execute and do or cause to be executed and done, all such other documents, acts or things (if any) as is reasonable to enable the Vendor to receive the Award Sum within 14 business days of Advancecon's receipt of a written request therefor if the same is received after the Completion Date.

(vii) Breach/ Termination

If Advancecon shall fail to complete the sale and purchase of the Sale Shares in accordance with the SSA and/or breaches any of the terms and/or warranties of the SSA before the Completion Date, then the Vendor shall be entitled to either:

- i. claim for specific performance of the SSA as may be available under law; or
- ii. if prior to Completion Date, terminate the SSA by written notice to Advancecon and upon such termination, the Vendor shall entitle to forfeit the Deposit in full being the agreed liquidated damages and after which the Vendor shall have no other claims whatsoever against Advancecon and Advancecon shall have the right to withhold and withdraw payment of the Purchase Consideration (including but not limited to the issuance of any Consideration Shares and the Vendor shall return all other Purchase Consideration paid (if any) within 14 business days of issuance of the said termination notice and be entitled to sell or dispose of the Sale Shares freely to any other party or parties.

If the Vendor shall fail to complete the sale and purchase of the Sale Shares in accordance with the SSA and/or breaches any of the terms and/or warranties of the SSA before the Completion date, then Advancecon shall be entitled to either:

- i. claim for specific performance of the SSA as may be available under law; or
- ii. if prior to Completion Date, terminate the SSA by written notice to the Vendor and upon such termination, the Vendor shall within 14 business days of receipt of the termination notice refund to Advancecon all Purchase Consideration received (including the Deposit) and pay Advancecon an additional sum equivalent to the Deposit as agreed liquidated damages and Advancecon shall have the right to withhold and withdraw payment of the Purchase Consideration (including but not limited to the issuance of any Consideration Shares) after which Advancecon shall have no other claims whatsoever against the Vendor and the Vendor shall be entitled to sell or dispose of the Sale Shares freely to any other party or parties.

If it is found after the Completion Date that a Party shall have breached his/its obligations under the SSA (including but not limited to the Profit Guarantee section above), the non-defaulting Party(s) shall be entitled to claim for specific performance in addition to any other remedies as may be available to the non-defaulting Party(s) under law and/or equity and the defaulting Party(s) shall indemnify and hold the non-defaulting Party(s) harmless against all costs, charges and expenses incurred or suffered by the non-defaulting Party(s) arising from such breach.

SALIENT TERMS OF THE SHAREHOLDERS AGREEMENT

SALIENT TERMS OF THE SHAREHOLDERS AGREEMENT

(i) **Effective Date**

The Shareholders Agreement is effective on the Completion Date of the SSA as provided for in the SSA (the "**Effective Date**").

If the SSA is terminated or lapses, then the Shareholders Agreement shall lapse and cease to have any further force or effect concurrently and thereafter none of the Parties shall have any further rights against the other(s) in respect of the Shareholders Agreement.

(ii) **Business of SERB Group**

Subject to any approvals as may be required from any public authority, the principal activity of the SERB Group shall be the carrying on respective businesses of the Group Companies as listed in the Shareholders Agreement unless otherwise approved by the Board of Directors of SERB, and where required by the shareholders of SERB ("**Shareholders**") in accordance with the Companies Act 2016, its Constitution and Main Market Listing Requirements of Bursa Securities.

(iii) **Financial Requirements**

The financial requirements of SERB shall be met from its business and revenue generated by it and/or by borrowings / banking facility from licensed financial institutions secured by its revenues and assets, grants or financial assistances from government and where determined by way of special resolution the subscription for Shares by the Shareholders in accordance with the Shareholders Agreement, by equity or debt financing. This section shall apply to each company within SERB Group ("**Group Company**").

Where borrowings and/or banking facilities are or has been obtained by a Group Company, the relevant Group Company shall satisfactorily maintain the banking and borrowing facilities obtained by the Group Company without default, in particular such facilities obtained for the purpose of working capital.

None of the Shareholders shall be required to provide or procure financial assistance and any security including, but not limited to, guarantees to secure the borrowings of any Group Company without the prior written approval of such Shareholder. In addition to the foregoing, the Vendor and Advancecon acknowledge and agree that financial institutions, lenders, creditors and/or other third parties may on or after the Effective Date require guarantees and securities to be provided by the Shareholders to secure the liabilities and/or obligations of the Company and/or any Group Company and the Shareholders shall only be required to provide the guarantees and securities in proportion to their respective Equity Participation (as defined in item (v) of Appendix II) in SERB to secure such liability and/or obligation.

For the avoidance of doubt, Advancecon shall not be liable to provide any security, guarantee or financial assistance in respect of any borrowing, liability and/or obligation of any Group Companies prior to the Effective Date.

Each Shareholder shall be given a first right of refusal for any future equity and/or debt financing requirement of SERB on a proportionate basis with their respective Equity Participation in SERB.

(iv) **Shareholder's Advance**

Vendor's Shareholder's Advance:

The Vendor agrees to advance to the Company RM9,800,000.00 only to SERB ("**Vendor's Shareholder's Advance**") on the Effective Date whereby a portion of the Cash Consideration equivalent to RM9,800,000.00 under the SSA will be paid directly into a new bank account of SERB for the dealing with the Vendor's Shareholder's Advance and Advancecon's Shareholder's Advance in which both the Vendor and Advancecon are joint signatories/authorisers.

The Vendor's Shareholder's Advance shall only be utilised for working capital requirements of the Group Companies in the manner approved by the Board of Directors of SERB from time to time; PROVIDED THAT, the Vendor's Shareholder's Advance shall not be utilised towards repayment of any other advances made by any shareholder or director of the Group Companies or persons connected to them ("**Utilisation**").

The Vendor's Shareholder's Advance shall not be repayable by SERB to the Vendor so long as the Profit Guarantee obligations of the Vendor under the SSA have not been met.

Provided always that the Profit Guarantee obligations are not met by the Vendor within the Profit Guarantee Period (as defined in the SSA), at the option of Advancecon, Advancecon shall be entitled by written notice to SERB to require SERB to repay a portion of Vendor's Shareholder's Advance equivalent to the amount of Shortfall To Purchaser (as defined in the SSA) that remains unpaid to Advancecon. SERB shall within 14 days of receipt of such notice, pay such amount stated in the said notice to Advancecon.

The Vendor's Shareholder's Advance shall only be repayable to Shareholder B from time to time, subject to the above having been fulfilled and all Profit Guarantee (as defined in the SSA) obligations fully discharged, and only if the Group Companies have sufficient cashflow to meet their operational expenses for the following 4 months should such repayment be made.

Advancecon's Shareholder's Advance:

Advancecon hereby agrees to advance to the Company up to RM10,200,000.00 only to the Company ("**Shareholder A's Advance**") within 14 days from the Effective Date (and provided that Advancecon has been registered as a shareholder of SERB holding the Sale Shares) and such Advancecon's Shareholder's Advance shall be paid into a new bank account of SERB for the dealing with the Vendor's Shareholder's Advance and Advancecon's Shareholder's Advance in which both Advancecon and the Vendor are joint signatories/authorisers.

Advancecon's Shareholder's Advance shall only be utilised for working capital requirements of the Group Companies in the manner approved by the Board of Directors of SERB from time to time; PROVIDED THAT, the Advancecon's Shareholder's Advance shall not be utilised towards repayment of any other advances made by any shareholder or director of the Group Companies or persons connected to them ("**Utilisation**").

The Advancecon's Shareholder's Advance shall only be repayable to Advancecon upon the expiry of the Profit Guarantee Period (as defined in the SSA) and only if the Group Companies have sufficient cashflow to meet their operational expenses for the following 4 months should such repayment be made.

(v) **Shares in SERB**

The Shareholders hereto agree that the shareholdings of SERB shall, unless otherwise varied in accordance with the provisions of the Shareholders Agreement, be maintained at all times in the following proportions ("**Equity Participation**"):

Advancecon: 51%
Vendor: 49%

The Shareholders hereby agree and undertake with one another that if additional capital is required by SERB, such additional capital shall be provided by way of subscription of further ordinary shares in SERB ("**Further Shares**") for cash for such amount, in such manner and at such time as the Board of Directors of SERB may determine provided always that the Further Shares shall be subscribed by the Shareholders in proportion with their Equity Participation.

(vi) Directors in SERB Group

Upon or immediately after the Effective Date and unless otherwise mutually agreed between the Shareholders, the Board of Directors of SERB shall consist of up to seven (7) directors of whom:

- (a) Advancecon shall be entitled to appoint up to four (4) directors; and
- (b) The Vendor shall be entitled to appoint up to three (3) directors.

Advancecon is entitled to board representation in each Group Company in proportion to its Equity Participation.

(vii) Tag Along

If the Vendor wishes to sell or transfer all or any of its SERB shares to any person pursuant to a bona fide arm's length transaction and subject to the right of first refusal of Advancecon to acquire those shares, Advancecon shall have the right to require the sale or transfer of all or any of its SERB shares held to the said third party under the same terms and conditions offered to the Vendor.

BUSINESS ACTIVITIES OF SERB GROUP

As highlighted in **Section 2** of this announcement, SERB Group's business activities mainly include quarry operation activities, civil engineering projects and bauxite mining.

(i) Quarry operation

a. **Commercial quarry**

SERB Group takes up the role of quarry managers for commercial quarry and provide quarry operation management whereby SERB Group leases quarry sites or enter into contracts with quarry landowners/ operators to manage the whole quarrying operation process which includes, but not limited to, drilling, blasting, crushing and screening of rock materials, as well as up to the sales and marketing of aggregates and by-products for immediate use or further processing.

SERB Group's total production output of quarry products from all its quarry operation for the FYE 31 December 2017, FYE 31 December 2018, FYE 31 December 2019 and FYE 31 December 2020 are 4.00 million metric ton ("MT"), 3.95 million MT, 4.75 million MT and 3.52 MT, respectively. As at the LPD, the total estimated remaining rock reserves from the commercial quarries stood at approximately 54.80 million MT.

In all commercial quarries, SERB Group possesses the rights to extract, process, produce, market and sell the aggregates and premix products, whereby such sales generate a key source of income to the SERB Group. In exchange for the rights, SERB Group is required to make a monthly tribute to the quarry landowners/ operators at a guaranteed minimum amount for all of the commercial quarries. As commercial quarry operator, SERB Group incurs royalties from all rock materials extracted and sold in the commercial quarries. Royalties are paid to the relevant state authorities in which SERB Group's operations are located, and thus, the royalty rates depend on the individual state's assessment.

As at the LPD, SERB Group is involved in a total of 6 on-going commercial quarry operation, all of which are located within Peninsular Malaysia. Set out below are the details of the commercial quarry operation:-

No Quarry Site	Location	Estimated monthly Output (million MT)	Maximum Capacity (million MT)	Reserves (million MT)	Operations Period*1
i. Seremban	Geran 17965 Lot 424, Geran 63451 Lot 841, Geran 64928 Lot 842, Geran 64927 Lot 843, Geran 64989 Lot 844, Mukim Seremban, Negeri Sembilan	0.04	0.06	1.31	2003-2033
ii. Semenyih	HS(D)42828 PT9316 and HS(D)42829 PT 9317, Mukim Semenyih, Daerah Ulu Langat, Selangor Darul Ehsan	0.11	0.15	6.86	2019-2028
iii. Sungai Buloh	Kompatmen 9, Hutan Simpan Bukit Lagong, Mukim Rawang, Daerah Hulu Selangor, Selangor	0.14	0.16	6.80	2008-2022
iv. Tanjung Dua Belas 1	PT 14037, Lot 6269, Mukim, Tanjung Duabelas, Kuala Langat, Selangor	0.08	0.10	6.80	2011-2022
v. Tanjung Dua Belas 2	Lot 12287, Mukim Tanjung Duabelas, Kuala Langat, Selangor	0.16	0.18	14.46	2019-2022

No Quarry Site	Location	Estimated monthly Output (million MT)	Maximum Capacity (million MT)	Reserves (million MT)	Operations Period ^{*1}
vi. Kuantan	Bukit Penggorak Mukim Sg. Karang, Kuantan, Pahang Darul Makmur	0.03	0.06	18.57	2016-2036

Note:-

^{*1} The operations period may be extended or renewed upon expiry subject to the terms and conditions stipulated with the employer/ contract party.

b. Project Quarry

SERB Group acts as a provider of quarrying-based services for project quarry, providing certain quarry operation services and/ or partially managing and operating machineries at the quarry or project site for the customers.

SERB Group's customers in the project quarry usually comprise of downstream players and end-users in the quarrying industry such as construction players and suppliers who require the use of aggregates and premix products, and that these customers usually operate within the vicinity of a quarry or project site. SERB Group provides certain quarry operation services to customers who may lack technical know-how, experience or operational capability in certain areas of quarry operation. SERB Group's scope of operation and to a certain extent, method of operation, varies on a project-to-project basis depending on the customers' requirements and needs.

As at the LPD, SERB Group is providing quarry operation services at 1 project quarry located at Simpang Pulai, Perak with a contract period from 2019 to 2024 and the estimated monthly output of quarry products is 0.18 million MT. SERB Group's scope of work for the project quarry is to extract, crush and supply quarry aggregates to the customer.

c. Production and Sales of Aggregates and Premix Products

Production and sales of aggregates and premix products represent a downstream business activity for SERB Group. The production and sales of aggregates and premix products entails the business activities of sales and marketing of aggregates and by-products as well as production and batching of premix products.

For the production and sale of premix products, which are generally further treated and/ or processed quarry products, SERB Group focuses on the production of asphaltic concrete as the end-product. Asphaltic concrete is produced by combining a portion of aggregates with bitumen at high temperatures. Asphaltic concrete is also a flexible composite construction material which is primarily used in road construction, particularly for pavement and surfacing works.

As at the LPD, SERB Group owns and operates 4 asphalt mixing plants for the purpose of producing premix products, with 1 batch plant at Tanjung Quarry, 1 drum plant each in Seremban Quarry, Semenyih Quarry and Kuantan Quarry. The batch plant is used to produce special mix asphaltic concrete and normal grade asphaltic concrete whilst the drum plant is used to produce normal grade asphaltic concrete. As compared to normal grade asphaltic concrete, the special grade asphaltic concrete are produced to give a higher degree of performance characteristics in terms of durability, shear deformation, braking efficiency, wear resistance and/ or temperature performance.

As such, SERB Group's premix plants are able to produce different grades and types of asphaltic concrete to suit the diverse needs of road construction materials required by the customers. All of the aggregate supply, being the main component required in the production of premix products that SERB Group produces and sells, are sourced from the commercial quarry sites at which SERB Group operates in.

d. Hiring of machineries

SERB Group provides rental service for its machineries to its customers who are mainly based in the quarrying industries. Crushing services are supplied in the form of crusher plant or mobile crusher to cater for the customer's production of quarry products. The mobile crusher offers the advantage of mobility and relocatability features, ease and speed of setting-up and dismantling of crusher, and speed of deployment to site as compared to crusher plant, although it generally produces a lower output of aggregates in a production cycle.

SERB Group also provide machineries such as road pavers and road rollers to support its customers' road construction activities in addition to the supply of premix products to such customers.

(ii) Civil engineering projects

A summary of the major civil engineering projects of SERB Group that are completed in the past 3 years up to the FYE 31 December 2020 and as at the LPD are set out below:-

Project details*¹	Date of award	Commencement/ Completion date	Contract value*² RM'000
Construction, completion and maintenance of landside civil infrastructure and main drain at Pahang	October 2016	November 2016/ January 2019	45,540
Construction and completion of pavement works for an expressway in central region of Peninsular Malaysia	September 2016	September 2016/ June 2020	4,573
Pavement rehabilitation works for an expressway in central region of Peninsular Malaysia	November 2018	November 2018/ January 2019	2,705
Pavement rehabilitation works for an expressway in central region of Peninsular Malaysia	August 2019	September 2019/ October 2019	314

As at the LPD, SERB Group has an outstanding order book of approximately RM2.37 million from the following on-going civil engineering projects:-

Project details*¹	Date of award	Commencement/ Expected completion date	Contract value*² RM'000	Remaining contract value RM'000
Construction and completion of mainline and other associated works for an expressway in central region of Peninsular Malaysia	15 July 2019	July 2019/ Jan 2020 ^{*3}	15,588	681
Construction and completion of mainline and other associated works for an expressway in central region of Peninsular Malaysia	11 July 2019	July 2019/ Feb 2020 ^{*3}	5,566	1,685

Notes:-

^{*1} For clarification purposes, the Company is in the midst of seeking the consent of the relevant part(ies) for the disclosure of the project information, which if permissible, such information shall be made available in the circular to shareholders in relation to the Proposals.

^{*2} Total contract value includes variation orders.

^{*3} This project is facing delays caused by the customer with no period of time fixed for completion.

For clarification purposes, the project owners for the secured civil engineering projects are not the directors, substantial shareholder(s) or persons connected with the directors or substantial shareholder(s) of SERB Group.

(iii) Bauxite mining

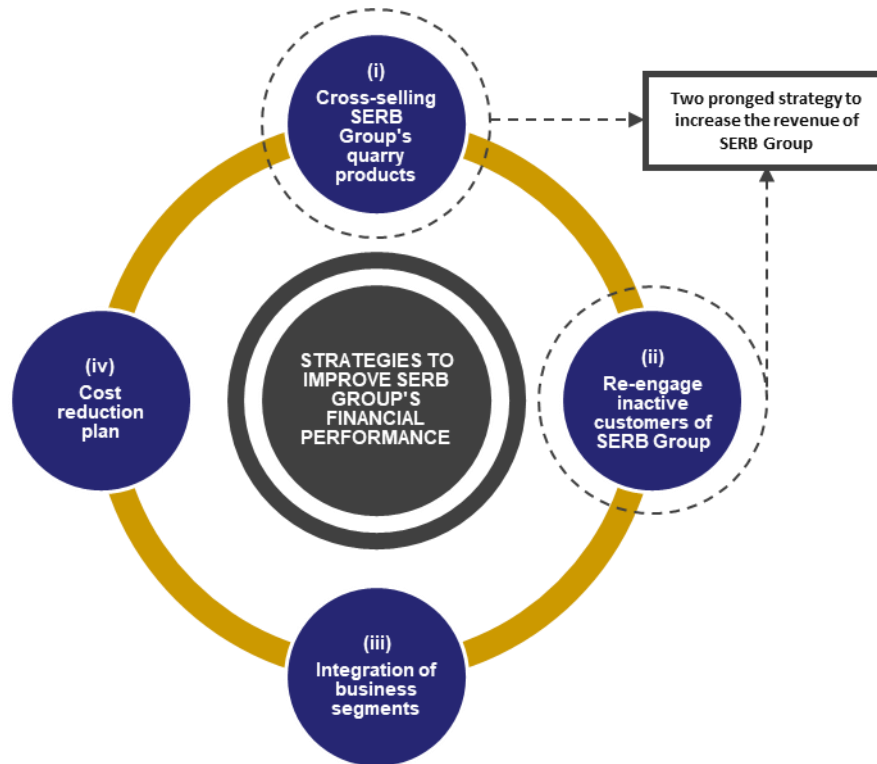
SERB Group has previously entered into a bauxite mining works agreement entered into with Kreatif Selaras Mining Sdn Bhd (a subsidiary of Tanah Makmur Berhad) allowing them to operate, carry out and manage the bauxite mining operation on Bukit Goh Land in Kuantan, which spans approximately 162.78 acres.

As highlighted in **Section 2.1** of this announcement, ever since the ban on bauxite mining in Pahang was imposed by the Ministry of Natural Resources and Environment in 2016, SERB Group has suspended and terminated all its bauxite mining operations and currently is only involved in post production work such as bauxite trading activities.

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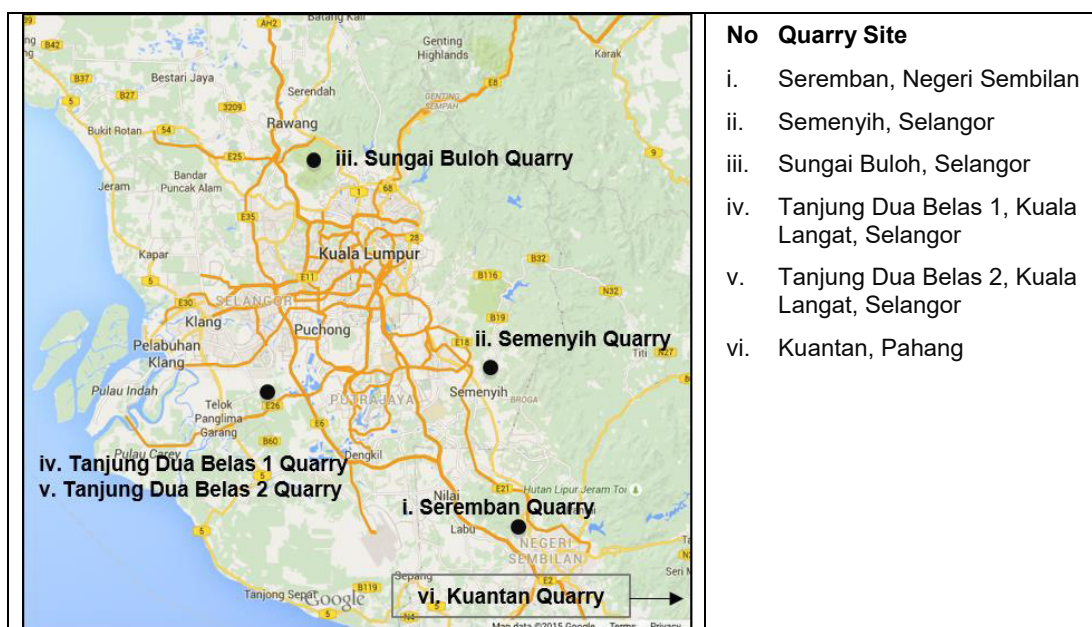
ADDITIONAL INFORMATION

As part of the Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, the Board and management of SERB have outlined several preliminary strategies to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability, further details as set out below:-



(i) **To increase the revenue of SERB Group by cross selling SERB Group's quarry products to Advancecon Group's subcontractors who work at the project sites**

As highlighted in **Appendix III(i)(a)** of this announcement, SERB is involved in a total of 6 on-going commercial quarry operation as at the LPD, of which the location of each commercial quarry site are depicted in the map as set out below:-



Based on the map above, SERB's quarry operation is located in the central region of Peninsular Malaysia (i.e. 4 in Selangor, 1 in Negeri Sembilan and 1 in Pahang), which not only puts them close to mega rail-line, highway and development projects (i.e. infrastructure and real estate), but also close to existing highway networks which are subject to periodic maintenance and improvement programmes. Each quarry site is easily accessible through the main routes and highways from major highways such as New Klang Valley Expressway (NKVE), Shah Alam Expressway (KESAS), West Coast Expressway (WCE), Kajang Dispersal Link Expressway (Kajang SILK) and Kajang-Seremban Expressway (LEKAS), etc.

Upon the completion of the Proposed Acquisition, SERB Group will get immediate exposure to Advancecon Group's subcontractors who work at the project sites located close to the vicinity of SERB's quarry operation as highlighted above. Accordingly, the enlarged Advancecon Group will be able to directly supply SERB Group's quarry products to Advancecon Group's subcontractors who work at the project sites located in the central region of Peninsular Malaysia, which is expected to reduce the risk of delay in delivery of materials and Advancecon Group will have better control over the supply of quarry products instead of relying on third party suppliers whom the Group may not be familiar with their quality of products/ materials.

(ii) To increase the revenue of SERB Group by undertaking initiatives to re-engage inactive customers of SERB Group

Over the years, SERB Group expanded its business activities from being a provider of integrated quarry operation management and services as well as production and sales of aggregates and premix products, into civil engineering services in 2001 and subsequently expanded into bauxite mining in 2014. The expansion into these two new business segments have caused SERB Group to divert its focus from the quarry operation. As a results, certain customers of SERB Group have become inactive. As such, SERB's inactive customers represents potential sales opportunities to the enlarged Advancecon Group and if successfully reactivated, could significantly increase the revenue of SERB/ the enlarged Advancecon Group.

The Board intends to undertake initiatives to re-engage inactive customers and drive additional revenue to SERB, such as deployment of dedicated sales personnel to provide personalised services to such customers, utilising all forms of communication channels to reconnect with the inactive customers, providing incentives/ rebates to attract these group of customers, thereby potentially increasing SERB Group's sale of quarry products in the medium to long term.

On top of re-engaging the inactive customers, the Board intends to undertake extensive survey within the vicinity of SERB Group's quarry sites as part of its effort to acquire new customers. The potential customers base of SERB Group spans across various business disciplines which include general/ building/ infrastructure contractors, property/ infrastructure developer, as well as manufacturer/ supplier/ dealer of aggregates or premix products or building materials. Surveys will be conducted to identify such potential customers within a radius of up to 50km from the quarry sites where SERB Group operates in, thereby ensuring the timeliness of delivery to the customers' sites. The sales and marketing team will then conduct a marketing visit to the identified new site, where both parties discuss requirements which include expected volume, pricing, duration as well as credit terms.

(iii) To integrate the civil engineering activities of SERB Group to be taken over by Advancecon thereby allowing SERB Group to focus on its core expertise of providing integrated quarry operation management and services

The Board intends to intergrate the civil engineering project activities of SERB Group into Advancecon Group in view that Advancecon Group's core expertise has always been in the provision of earthworks and civil engineering services.

On the other hand, SERB Group shall focus on its quarry operation activities under the leadership of Dato' Yap Soon Huat and his current management team by leveraging on the experience of Dato' Yap Soon Huat in the quarry operation industry.

In essence, Advancecon Group and SERB Group will focus on expanding their respective core expertise under an enlarged entity moving forward. Further, the diverse and unique combination of industry knowledge, ability and expertise of the personnels from Advancecon Group and SERB Group across the construction and quarrying industries as well as various business disciplines will enable the enlarged Advancecon Group to achieve operational synergy moving forward.

For instance, Advancecon Group's contract department in preparation for tender for proposals, is able to seek SERB Group's management in control of the quarrying and premix departments for their expertise and knowledge prior to determining the pricing of road construction materials and the conformity pre-assessment of products and service to be delivered. In this respect, synergistic benefits within the enlarged Advancecon Group can be derived in terms of sharing of management expertise, information and knowledge, and potentially lower operational or finance cost given its diverse pool of human resources with each equipped with their own industry knowledge and experience.

Upon the completion of the Proposed Acquisition, Advancecon Group will also gain immediate access to the fleet of machineries of SERB Group that are readily available for operational use, which may have been left idle as a result of the reduction in the construction activities undertaken by SERB Group's civil engineering segment, which will allow the enlarged Advancecon Group to achieve better coordination of machineries and allocation of resources.

(iv) To undertake possible cost reduction for SERB Group

With the combined operations of Advancecon Group and SERB Group pursuant to the Proposed Acquisition, Advancecon Group and SERB Group would be able to streamline the back office operations of the enlarged Advancecon Group through the sharing of resources within the enlarged Advancecon Group to obtain economies of scale, thereby achieving potential savings on staff costs and administrative expenses coupled with improved operational efficiency for SERB Group. The shared services will focus mainly on back office departments such as human resources, marketing and in-house machinery repair and maintenance team to a lesser extent, information technology where most cost savings can be realised.

Furthermore, the Group will review SERB Group's current operating structure with the intention to eliminate overlapping expenses and to derive greater cost savings. The Group will look into such areas as diesel, petrol, spare parts, staff costs, transport costs and other general expenses in undertaking its cost-reduction initiatives.

As the above measures mainly involves the consolidation of the business operations of SERB Group with the Advancecon Group, the Board foresees that there won't be significant costs involved to undertake such plans. For the avoidance of doubt, the exact breakdown of the utilisation for each plans cannot be determined at this juncture as the actual amount used for each specific purpose may differ at the time of utilisation which will be dependent on the then operating requirements of the enlarged Advancecon Group.

By undertaking the aforementioned measures to improve SERB's earnings and overall operating structure, the Board is confident that, barring any unforeseen circumstances, SERB is expected to return to profitability within the next 1 year after the completion of the Proposed Acquisition.